CHAPTER 12 PROTECTION OF INTELLECTUAL PROPERTY

1. OVERVIEW OF RULES

(1) Protection of Intellectual Property

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 discriminated 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 in order 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, 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 establishing standards for the trade aspects protecting 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.

(2) Legal Framework

(i) 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

Scope of Coverage	All legally-recognized intellectual property rights (copyright and related rights, patents, industrial designs, trademarks, geographical indications, layout-designs of integrated circuits and undisclosed information)
Relation to Existing Conventions	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.
Basic Principles	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 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 Berne and Paris conventions, and MFN exceptions found in existing international agreement and multilateral agreements.
Levels of Protection (Standards)	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. 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 matters. 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.
Enforcement	The TRIPS Agreement requires domestic procedures for enforcement to be fair and equitable. It provides for enforcement through civil judicial process, through administrative procedures including border measures and administrative remedies, and through criminal judicial process.
Dispute Settlement	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.

Transitional Arrangements	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 for place the following obligations on developing countries availing 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 which are the subject of a patent application under certain conditions.
Amendment	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.

Work in the Council for TRIPS

The WTO Council for TRIPS held five formal meetings in 1998. 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, and 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 fourteen developed countries, including Japan, and seven international organizations including the World Customs Organization (WCO) to developing 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. The WTO and WIPO held a workshop in July 1997 for improving the enforcement of border measures.

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. Legislation is conducted from 1996 through 1998. (See Figure 12-2). The Council continues to analyse the results of the review.

Consideration of reviews of the TRIPS Agreement

The Council for TRIPS began to discuss the issue of geographical indications in November 1996, and is continuing discussions on the purpose and procedures for the review of the application of the provisions of geographical indications under Article 24.2. Related agenda items include the establishment of a multilateral system for the notification and registration of geographical indications for wines and spirits, and the granting of additional

protection of geographical indications for products other than wines and spirits.

In addition, fact-finding activities are in progress as a first step of review regarding the exemption provision on patentability of plants and animals.

Furthermore the Council began to examine the scope and modalities for non-violation complaints under the TRIPS Agreement.

Overview of TRIPS Dispute-Settlement

Since the TRIPS Agreement took effect on 1 January 1995, 12 matters have been taken into consultation under the WTO dispute settlement procedures. They are: 1) Japan - Measures Concerning Sound Recordings, complaints by the United States and the European Union; 2) Pakistan - Patent Protection for Pharmaceutical and Agricultural Chemical Products, complaint by the United States; 3) Portugal - Patent Protection under the Industrial Property Act, complaint by the United States; 4) India - Patent Protection for Pharmaceutical and Agricultural Chemical Products, complaints by the United States and the European Union; 5) Indonesia - Measures Affecting the Automotive Industry, complaint by the United States; 6) Ireland and EU - Measures Affecting the Grant of Copyright and Neighbouring Rights, complaint by the United States; 7) Denmark - Measures Affecting the Enforcement of Intellectual Property Rights, complaint by the United States; 8) Sweden - Measures Affecting the Enforcement of Intellectual Property Rights, complaint by the United States; 9) Canada - Patent Protection of Pharmaceutical Products, complaint by the European Union; 10) Greece – Measures Affecting the Enforcement of Intellectual Property Rights, complaint by the United States; 11) EU - Patent Protection of Pharmaceutical and Agricultural Chemical Products, complaint by Canada; and 12) United States – Section 110(5) of US Copyright Act, complaint by the European Union.

Concerning the *Japan Sound Recordings* case, Japan amended the Copyright Law, leading to a mutually agreed solution in 1997. The *Pakistan Patent* case and the *Portugal Patent* case also resulted in mutually agreed solutions on February 1997 and July 1997, respectively. In the *India Patent* case the Appellate Body report and the panel report were adopted by the DSB on 16 January 1998 (see 2. (2) (iii)). The European Union originally participated in this case as a third party. However, it requested consultations separately on the same issue and a panel was established in October 1997 and the panel report was adopted in September 1998.

In the *Indonesia Auto* case, a panel was established in July 1997. On 23 July 1998, a panel report was adopted in relation to Indonesia's measures as to automobiles. However, according to the report, illegality of the measures in the context of the TRIPS Agreement was not ascertained. As for the *Canada Patent* case, a panel was established on 1 February 1999. Finally, Canada requested consultations in which it claimed the inconsistencies of European patent protection of pharmaceutical and agricultural chemical products on 2 December 1998.

<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 (Total: 36 Countries)

<Reference> 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 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. In order to create new rules to address areas not covered by the TRIPS Agreement or other existing conventions, the WIPO is organizing negotiations to draft new rules.

In the case of patents, negotiations of the Patent Harmonization Treaty, aimed at harmonizing various patent systems among Members have been held since 1985. However, because the United States failed to settle domestic debate on this treaty, the diplomatic conference for the conclusion of the treaty has been postponed to date. The Consultative Meeting in May 1995 began preparations for the diplomatic conference, agreeing to hold the conference sometime in or after 1997. It also agreed to promote negotiations about the Patent Laws Treaty (PLT) to harmonize filing procedures until the diplomatic conference can be convened for the adoption of the Patent Harmonization Treaty. The Standing Committee on Patents (SCP) was established in March 1998, after five meetings as Experts Committee. Currently, SCP has been discussing eagerly in order to hold the diplomatic conference in the year 2000 as a landmark.

In the area of copyright and related rights, a Protocol to the Berne Convention is being discussed by WIPO. The protocol which would supplement and enhance the Berne Convention, which was last changed over twenty years ago would include 1) new minimum standards of copyright; 2) new minimum standards of the rights of performers (singers, actors, etc.) and producers of recordings; and 3) new protection for databases.

The WIPO Diplomatic Conference in December 1996 agreed upon new minimum standards for copyright and reached partial agreement on new minimum standards for the rights of performers. At this conference, the “WIPO Copyright Treaty” and “WIPO Performances and Phonograms Treaty” were adopted. Each treaty will take effect three months after at least 30 countries have ratified the treaty.

Consultations in the WIPO continue in areas where agreement has yet to be reached, with negotiations progressing toward the adoption of a treaty protocol on audio-visual performances. With regard to the protection of databases, reviews involving investigations on current situations of individual countries have also been held. In addition, reviews on the raising of the protection level on broadcasting agencies have also begun.

(3) 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 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, as well as the manufacture and distribution of products that infringe on IPR, thereby reducing the incentives and allocations of resources for new product development.

Furthermore, regulations which 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, reducing domestic technological development and ultimately

causing a detrimental affect on the countries involved and the world economy as a whole.

Second, if each country's intellectual property rights system causes excessive IP 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.

2. 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 except for national treatment and most-favoured-nation treatment a certain number of years. Nevertheless, we recommend that measures inconsistent with the international standards be eliminated as soon as possible.

To implement 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 bring their legal systems into conformity with the TRIPS Agreement and to point out, as appropriate, any aspects that may not be in conformity. The Council for TRIPS is conducting reviews of each Member's implementation of obligations of the TRIPS Agreement, and it will be important to point out any measures that are inconsistent with the TRIPS Agreement. In addition, should countries fail to correct 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

(i) Patent System

The United States has quite a unique patent system, including (a) the first-to-invent principle, which negatively affects the stability of patent rights and (b) the lack of early publication system, which leads to so-called “submarine” patents. 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. Under Article 2 of the TRIPS Agreement, Members have to comply with certain provisions in the Paris Convention for the Protection of Industrial Property. For example, Article 4 of the Paris Convention gives priorities regarding patent applications at the international level, and further paragraph B of the article provides that patents “shall not be invalidated by reason of any acts accomplished in the interval…, and such acts cannot give rise to any third-party right…”

However, in accordance with two decisions of 1966 and 1970 that were made by the Federal Court of Appeals, the United States makes a restrictive interpretation regarding the effect of priority based on Article 4 of the Paris Convention (the Hilmer doctrine) that the priority date in the Paris Convention will not be construed to prevent the grant of a patent by another applicant under Section 102(e) and (g) of the US Patent Act.

This interpretation appears to be in breach of Article 4(b) of the Paris Convention, which explicitly provides “such acts cannot give rise to any third-party right.” This particular provision has been incorporated into the TRIPS Agreement by virtue of Article 2 thereof. Clearly, the Hilmer doctrine has become an obstacle to trade and investment in the United States. We need to conduct further investigation on the actual operation of the system bearing in mind the effect to the Japanese industries.

<Column> United States’ Unique Patent System

Among developed countries of the world, the United States has quite a unique patent system: For instance, the United States is the only country that still maintains the “first-to-invent” principle. Although it would not be appropriate to condemn the United States only because of having such a unique patent system, it must be pointed out that the United States is one of the biggest markets in the world. Other nations may have to bear unreasonably high costs of using the US patent system and business prospects maybe adversely affected due to the lack of stability in patent rights. Such situations would be obstructive to the liberalisation of trade and investment. It is therefore strongly hoped that the United States take remedial measures on this matter.

(a) Submarine Patents

In the United States, it is possible for a patent applicant to keep the application secret and intentionally delay the progress of patent examination. The applicant may seek to have the patent granted once a third party separately succeeds in merchandising the same technology

and once the market for goods that infringe the patent has expanded enough for the patent holder to obtain a huge amount of royalty on the patent. This is the problem of so-called "submarine patents." In one case, the application for microcomputer basic technology was filed in 1969; the existence of the application was not made public for 21 years, until the patent was granted in 1990. This patent allows protection for 17 years from the date it was granted.

Two factors cause submarine patents. First, the United States does not publish patent applications early. Second, in the United States, the starting date of the patent term was the day on which the patent is granted, regardless of the filing date.

During the US-Japan Framework Talks initiated in October 1993, Japan requested the elimination of these factors causing submarine patents, and the United States agreed to establish an early publication system before 1 January 1996, and to calculate the patent term not from the date it is granted but from the date its first application is filed.

Starting Date of a Patent Term

Article 33 of the TRIPS Agreement specifies that the term of patent protection be a minimum of 20 years from the filing date. Section 154 of the US Patent Act as amended by the Uruguay Round Agreements Act (URAA) provides that the term of a patent will end 20 years from the earliest filing date, allowing the patent to be extended for up to five years if the issue of the patent is delayed for specified reasons. However, this amendment applies only to patent application, which are submitted on or after 8 June 1995. Consequently, applications filed on or before 7 June 1995 may remain submarine patents forever. Furthermore, after the URAA amendments, a bill was submitted to Congress in 1995 providing that the term would be the longer of 17 years from the grant or 20 years from the filing. Although Congress did not pass this bill, it should nevertheless be carefully watched.

Lack of Early Publication System

After 1994, several bills establishing an early publication system were submitted to Congress. These bills provided for the publication of all applications, in principle, as soon as possible after the expiration of a period of 18 months from the earliest filing date. Unfortunately, the bills were not voted on before the end of the congressional session. The United States has failed to enact its agreements with Japan, and the deadline for implementation has long passed. It is necessary for the United States to implement the agreements as soon as possible.

(b) First-to-Invent Principle

The United States employs the first-to-invent principle under which a patent is granted to the applicant who invented an item first. This differs from the first-to-file principle under which the patent is granted to the applicant who first filed the application. While the first-to-

invent principle is not a violation of the TRIPS Agreement, the United States is the only country in the world to adopt such a system. Under the first-to-invent principle, the validity of patents is neither predictable nor secure because those who claim that they invented first can challenge the status of a current patent holder. Moreover, inventors have to bear a considerable economic burden because they have to prepare and safeguard documents to prove the date of invention. People in the United States have begun to be aware of the problems with the "first-to-invent" doctrine. In September 1992, the Advisory Committee on amendments to the US patent law recommended that the Secretary of Commerce adopt "first-to-file" standards. In order to eliminate these problems and promote the international harmonization of patent laws, the United States should change to a "first-to-file" system.

(c) Re-examination system

The United States also has a re-examination system that enables third parties to challenge a patent after it has been granted. However, third parties' rights of challenge are limited under the system because 1) a challenge can only be mounted regarding the existence of prior arts, 2) after the challenge has been filed, the challenger has no further involvement in the re-examination process and 3) the challenger cannot appeal the decisions.

During the Intellectual Property Working Group of the US-Japan Framework Talks, Japan sought improvements in the re-examination system and reached an agreement that the United States revise current procedures by 1 January 1996 including expanding the reasons for requesting re-examinations and the opportunities for third parties to participate in the process. However, as with the early publication system, the legislation covering the improvements was submitted to Congress repeatedly during the 1994 and 1995 session, only to expire at the end of the session before the deliberations were completed. The bill to amend the patent law that was submitted to Congress in 1997 only contains an expansion of opportunities for third-party participation in review proceedings in the case of the Senate version, and contains no improvements to the review system at all in the House version. This constitutes a failure on the part of the United States to fulfil its agreement to improve the review system, and Japan should continue to press for full implementation of all obligations as soon as possible.

(ii) 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 infringing 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 12-3).

Under certain circumstances, Article XX(d) of the GATT establishes an exception permitting the exclusion of imports that infringes 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) (See Reference).

Despite such a clear and definitive statement of inconsistency with the GATT, the United States did not abide by the panel's decision immediately. With respect to the relatively short and fixed time limits for the completion of proceedings under Section 337, a measure found to be one of the factors 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. While the deadline for final relief has been eliminated, the ITC is now merely directed to establish a "target date." This could result in discriminatory treatment of imports depending on how the provision is administered, and must be monitored closely.

<Figure 12-3> Number of Investigations Initiated under Section 337

Year	Total Number of Cases	Number of Cases Involving 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

<Reference> Section 337 Panel and Outline of U.S. Uruguay Round Agreement Act

In April 1984, the US company Du Pont filed a complaint with the International Trade Commission (ITC) under Section 337 to prohibit the importation into the United States of aramid fibre exported by the Dutch company Akzo, claiming an infringement of its patent. In November 1985, the ITC issued a limited exclusion order (which covers only products imported by the accused) to prohibit the importation. In October 1987, a GATT panel was established to examine the case.

In January 1989, the panel concluded that Section 337 of the United States Tariff Act of 1930 is inconsistent with GATT Article III: 4 because it accorded to imported products less favourable treatment than that accorded to like products of United States origin as a result of six factors:

(i) The availability to complainants of a choice of forum (the ITC or a federal court) in which to challenge imported products, whereas no corresponding choice is available to

challenge products of US origin (only a federal court is available);

(ii) The potential disadvantage to producers or importers of challenged products of foreign origin resulting from the tight and fixed time-limits in proceedings under Section 337, when no comparable time limits apply to producers of challenged products of US origin (the period between the publication of the notice of investigation and the final determination is normally limited to 12 months and cannot extend beyond 18 months, while patent-related litigation in federal district courts takes an average of 31 months);

(iii) The non-availability of opportunities in Section 337 proceedings to raise counterclaims, as is possible in proceedings in a federal court;

(iv) The possibility that general exclusion orders may result from proceedings brought before the ITC under Section 337, given that no comparable remedy is available in a federal court against infringing products of US origin;

(v) The automatic enforcement of exclusion orders by the US Customs Service, when injunctive relief obtainable in a federal court in respect of infringing products of US origin requires for its enforcement through individual proceedings brought by the successful plaintiff;

(vi) The possibility that producers or importers of challenged products of foreign origin may have to defend their products both before the ITC and in a federal court, whereas no corresponding exposure exists with respect to products of US origin.

The Panel found that inconsistencies couldn't be justified under Article XX(d), which justifies measures necessary to secure compliance with laws or regulations relating to the protection of patents, trade, marks and copyrights as exceptions. In the consideration of each inconsistency, the panel found that factor (v) and in some cases factor (iv) can be justified under Article XX(d).[1]

A summary of the significant amendments by the Uruguay Round Agreements Act, is provided below.

- Elimination of time requirements

There has never been a time limit on the procedures used by a federal court to determine infringement of intellectual property rights by domestic products, but ITC investigations of infringements by imports were required to be completed within a set time frame. This discrepancy has been amended to remove the time limits on ITC procedures. Under the new regulation, the ITC is directed to establish a "target date" for final determination in each investigation within 45 days of the initiation of a investigation.

- Availability of counter claims

Prior to the recent amendments, it was only possible for accused infringers to file countersuits in a federal court. Now, however, accused infringers are able to file countersuits

[1] United States – Section 337 of the Tariff Act of 1930, complaint by the European Economic Community, adopted on 7 November 1989, BISD 36S/345.

in both a federal court and the ITC proceedings.

- Restrictions on the situations in which general exclusion orders can be issued

Federal court injunctions only affect the accused, but the ITC has been able to issue general exclusion orders on products imported by parties other than the accused. Amendments still allow general exclusion orders to be issued, but limit them to situations in which a) they are necessary to prevent circumvention of limited exclusion orders or b) there is a specific pattern of Section 337 violations and it is impossible to determine the source of the infringing products.

- Elimination of double jeopardy

Infringement of intellectual property rights by domestic products are judged only by the federal court system, but under the old system it was possible for imports to be in double jeopardy of both the ITC proceedings and federal court proceedings. Amendments have made it possible for court proceedings on the same case to be halted at the request of the defendant.

(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.

All of the Individual Action Plans (IAP) submitted to the Asia-Pacific Economic Cooperation (APEC) Forum included clear statements on establishing intellectual property legislation that were in conformity with the TRIPS Agreement and it is expected that this work will move forward. Furthermore, Korea, Hong Kong and the Philippines have already amended their legislation to conform with the TRIPS Agreement, and Singapore and Malaysia have commitments in their IAPs to amend their legislation to conform with the Agreement by January 1999. The amendments to the laws of Korea, Hong Kong and the Philippines took effect in July 1996, June 1997, and January 1998, respectively. In addition to conforming to the TRIPS Agreement, Hong Kong established an individual registration system, and the Philippines established a "first-to-file" system.

The ASEAN heads of state signed the "ASEAN Framework Agreement on Intellectual Property Cooperation" that requires the Member States to improve cooperation in the protection and enforcement of intellectual property rights. ASEAN Members will also explore the possibility of establishing an ASEAN common patent and common trademark system. In 1997, the working group for the implementation of the Agreement established a three-year action plan. We expect much from these efforts to use regional cooperation to reinforce protection of IPR including controls on counterfeit goods.

(i) 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 12-5). This problem is exacerbated by many Asian governments' inability to effectively enforce rights and eliminate infringements. In Indonesia and India a few cases can be seen where a third party registers well-known foreign trademarks.

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. Although this requirement does not apply to many Asian countries, because they are still in a transitional period, Japan must still watch their implementation efforts.

<Figure 12-4> Number of Complaints by Japanese Firms for IPR Infringement in Asian Countries

	The Number of Infringements of Japanese Products(1997) (*1)		Number of Resulting Orders to Cease and Desist Importation of Infringing Goods (*2)		
	Number of Cases with Country as the Producing Country	Number of Cases with Country as the Distributing Country	1995	1996	1997
Hong Kong	10	16	133	742	326
Korea	66	31	970	1789	1199
Malaysia	--	9	--	--	--
Singapore	2	6	9	12	11
Indonesia	6	13	--	--	4
Thailand	9	8	53	39	47
Philippines	--	7	8	14	18
India	9	7	--	--	--
China	113	53	57	47	70
Taiwan	93	47	59	92	23
Asia(*3)	311	207	1289	2735	1698
World	388	327	1395	3463	1830

The major examples of infringement upon intellectual property rights in Asian nations and regions in terms of the financial loss and the number of items involved. (*1)

Hong Kong : Small-sized electronic products, Computer software, Clothing
Korea: Machineries, Automobile parts
Malaysia: Small-sized electronic products
Singapore: Stationary, Parts of electronic products
Indonesia: Closing, Leather goods, Sundries
Thailand: Automobile parts, Machineries
Philippines: Audio equipment, Sundries
India: Closing, Machineries
China: Small-sized electronic products, Automobile parts, Sundries, Stationary
Taiwan: Machineries, Small-sized electronic products, Sports goods

(*1) Source: Research by Japan Institute of Invention and Innovation, (The survey covered 5,000 lower cases companies)
(*2) Source: Ministry of Finance Customs and Tariff Bureau
(*3) Asian Sum Total of (*2) is the Sum Total of Asian Countries on This Figure

Another problem of enforcement in Asian countries is limitations regarding enforcement through civil procedures. Civil procedures in Asian countries often make it difficult to identify the producers and sellers of infringing products or to gather evidence. Indeed, in many cases, the offending parties find it is not worth while to bring suit because of these limitations. As a

result, administrative and police organizations' criminal proceedings remain indispensable to enforcement.

Some Asian countries recognize the need to strengthen criminal procedures and are actively working to eliminate infringing products. We can already see that the distribution of infringing goods has declined as a result of these efforts. We will continue to evaluate the work of Asian countries and expect these efforts to reduce violations of intellectual property rights.

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 countries' substantive law and systems will not be enough.

First, it is necessary to secure the necessary personnel to operate an effective intellectual property protection regime, and effort must also 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 be efficiently and appropriately operated, it is necessary to develop computerized systems and to disseminate information among the agencies and to the public. To assist in achieving these goals, Japan and other developed countries should help developing countries make the necessary institutional improvements and provide technical assistance through expanded training programmes.

Moreover, it is necessary to urge governments to further reinforce registration by administrative authorities, and to educate nationals of 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. For example, the Japanese Patent Office is carrying out training programmes from 1996 to 2000, which will receive approximately a thousand trainees from Asia-Pacific countries. It will also dispatch technical experts and hold seminars and workshops, cooperate in information related areas including providing patent information, and set up a database on Asian countries system of intellectual property rights.

(ii) Licensing restrictions (Malaysia, India)

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 licensers to use their intellectual property rights or placing foreign licensers 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 include the following.

(i) Limitations on the terms of licensing contracts or the periods for which royalties can be collected (five years in Malaysia). 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 twenty years (Article 33).
Government regulations that restrict rights under international licensing contracts to anything shorter than its valid right term are contrary to the TRIPS Agreement.

(ii) Prohibitions regarding clauses that obligate licensees to maintain confidentiality of technology after the contract period has expired, and prohibitions regarding clauses limiting re-transfers to third parties (Malaysia). Licensors should be able to prevent the disclosure to and use by third parties of undisclosed information included with the licensed technology. Article 39.2 of the TRIPS Agreement provides for such measures.

(iii) The setting of ceilings on royalty rates (5 percent in Malaysia). This constitutes an actual limitation on the right to conclude licensing contracts and is probably contrary to Article 28 of the TRIPS Agreement. Other restrictions that may not be contrary to the TRIPS Agreement include:

(iv) Obligations on the licensor of licensed technology not to infringe third parties rights or to guarantee that certain levels of technology will be met.

(v) Prohibitions regarding contracts clauses restricting exports. Both of these impose extremely disadvantageous conditions on the licensor of technology and may discourage licensing contracts.

India obligates approval procedure for foreign technology agreements. The approval is automatically given when the agreements have met certain requirements (such as, terms of licensing contracts, limitation of ceilings on royalty rates) and in other cases, by individual approval. There are some complaints, namely, undisclosed examination standards and compulsion to modify contractual clauses without any explanation during the individual approval procedure.

The above licensing restriction issues are not inconsistent with the Agreement for the present because countries are still in their transitional period. However 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.

(iii) Patent Protection for Pharmaceutical and Agricultural Chemical Products during the Transitional Period (India)

Even during the transitional period, the TRIPS Agreement stipulates two obligations on developing countries if they do not make pharmaceutical and agricultural chemical products available for patent protection. Those developing countries must (a) provide means for applications of patents for such inventions (so-called "mailboxes") (Article 70.8), and (b) grant the exclusive marketing rights to pharmaceutical products for which patent applications have been filed, under certain conditions (Article 70.9). Although more than four years have passed since the Agreement entered into force, many countries still do not have systems in place, a matter that has been taken issue with in the TRIPS Committee. The United States initiated WTO dispute-settlement procedures seeking correction from Pakistan and India on this issue. With Pakistan, a bilateral agreement was reached for Pakistan to correct its system. With India, the Appellate Body concluded the measures by India to be in violation of the TRIPS Agreement and recommended that the DSB request India to meet its obligations under Article 70.8 and 70.9 of the TRIPS Agreement. India promulgated the Patent Amendment Ordinance 1999 in order to implement the rulings and recommendations of the DSB. However, the United States decided to request consultations and to recourse to Article 21.5 of the DSU with its observation of inconsistency on the new Indian legal regime with the TRIPS Agreement on 14 January 1999.

<Column> Panel on India - Patent Protection for Pharmaceutical and Agricultural Chemical Products

India's Patents Act of 1970 did not make available "products patents" on pharmaceuticals and agricultural chemicals. Because of this, the President of India promulgated the Patents Amendment Ordinance of 1994, providing supplementary measures for the transitional period that would bring India's system into conformity with Article 70.8 and 70.9 of the TRIPS Agreement. This was done on 31 December 1994, at which time the TRIPS Committee was informed of the amendments.

The amendments were, however, temporary presidential legislation, which the constitution of India allows in cases of urgency when Parliament is out of session. In accordance with the constitution, the ordinance expired on 26 March 1995, six weeks after Parliament reconvened. The Government submitted an amendment bill to Parliament in March 1995, but it was not passed and the bill expired when Parliament was dissolved on 10 May 1996.

Under this situation, India has received patent applications for pharmaceuticals products through "administrative instructions."

The United States requested bilateral consultations under GATT Article XXIII claiming that (1) India does not provide a legal basis for filing "mailbox" applications, and (2) India does not provide a system for granting exclusive marketing rights, in violation of Article 70.8 and 70.9 of the TRIPS Agreement. Bilateral consultations failed to produce a resolution, so a panel was established on 20 November 1996.

India rebutted the complaints of the United States by arguing that (1) establishment of a "mailbox system" through administrative procedures is justified by Article 70.8; and (2) the events listed in Article 70.9 had not yet occurred, and there is no obligation to make a system for the grant of exclude marketing rights system immediately.

On 5 September 1997, the panel concluded that India is in violation of the TRIPS Agreement for the following reasons that (1) India's "administrative instructions" do not provide a legal basis to preserve novelty and priority of applications; (2) Article 70.9 required legal mechanisms to be in place by the time the Agreement took force. The panel report recommended that India brings its legal regime into conformity with the TRIPS Agreement, taking care to protect the rights of applications already filed. India appealed from the panel decision to the Appellate Body, but the Appellate Body upheld the conclusion and submitted the report to DSB on 19 December 1997. The Appellate Body report and the panel report were adopted by the DSB in January 1997.

(iv) Local Brand Treatment Policies (Malaysia)

Some developing countries restrict the use of famous-foreign-brands (trademarks) and give favourable treatment to local-brands established within their domestic markets as part of a policy to promote domestic industry. Such measures are, however, likely to be in violation of national treatment under Article 3 of the TRIPS Agreement.

In October 1997, Malaysia introduced an "Export Promotion and Import Reduction Plan" that included various measures (see Chapter 3). One of the provisions in this plan gives preferential tax deductions for the advertising expenses of local-brand products. Foreign companies advertising products under foreign brands cannot claim this preferential deduction and are therefore placed at a disadvantage. This measure is likely to be a violation of national treatment of Article 3 of the TRIPS Agreement. By giving preferential treatment only to some domestic goods, it may also be in violation of GATT Article III regarding national treatment.

(3) European Union and others

Greece – Enforcement of Intellectual Property Rights for Motion Pictures and Television Programmes

In the TRIPS Agreement, Articles 41 through 61 provided 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.

The United States has initiated WTO dispute-settlement procedures seeking correction from the European Union and Greece on inappropriate copyright protection for motion

pictures and television programmes. The United States claimed effective remedies against copyright infringement do not appear to be provided or enforced in the EU and Greece, otherwise a number of television stations in Greece broadcast motion pictures and television programmes without the authorization.

<Column> Canada - Patent Protection of Pharmaceutical Products

In December 1997, the European Union requested consultations with Canada regarding the protection of inventions in the area of pharmaceuticals under Canadian Patent Act in relation to its obligations under the TRIPS Agreement. After consultations, which were held twice, the EU requested establishment of a panel in November 1998. The EU claims that Article 55 *bis* of the Canadian Patent Act is inconsistent with obligations under Article 27, 28, and 33 of the TRIPS Agreement.

More precisely, under the Canadian Patent Act, (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, (i) different treatment between inventions on any technological field violates the obligation under the Article 27.1 of the TRIPS Agreement, (ii) 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 the Article 28.1 of the TRIPS Agreement, and (iii) making and stockpiling patented medicines for sale after expiry for the period up to six months before patent expiry also violates the obligation under the Article 33 of the TRIPS Agreement. In February 1999, a panel was established to examine the case.

Canada requested consultation with the EU regarding the protection of inventions in the area of pharmaceutical pharmaceutical and agricultural chemical products under the Council Regulation (EEC) No. 1768/92 and European Parliament and Council Regulation (EC) No. 1610/96. Canada claims these regulations are incompatible with the obligation of the EU not to discriminate on the basis of field of technology as found in Article 27.1 of the TRIPS Agreement.