Chapter 12

PROTECTION OF INTELLECTUAL PROPERTY

1. OVERVIEW OF RULES

In today's highly-developed economic environment, intellectual creativity (*e.g.*, inventions, design know-how, and artistic creations) is becoming increasingly important in daily business. Among this intellectual creativity, inventions, designs, literary works, layout-designs of integrated circuits and trade secrets are subject to legal protection. In addition, trademarks are entitled to legal protection to safeguard reputations gained as a result of marketing and production activities, as well as to protect consumers and ensure fair competition. As the volume of trade in goods and services involving intellectual property has greatly increased 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 among WTO Members can distort free trade.

In developing countries, the protection of intellectual property rights (IPR) is often insufficient. For example, developing countries often limit protection to a very narrow subject area, or provide protection for only short periods of time, or lack strict enforcement. Some developed countries maintain problematic intellectual property regimes that, for example, openly discriminate against foreign nations, provide excessive protection, or are so different from those employed by the rest of the world that their administration alone constitutes discrimination.

To address the trade distorting effects these problems can cause, the WTO sought to establish an appropriate framework for the protection of intellectual property. A number of international treaties already form a common legal framework for the protection of intellectual property. The Paris Convention, which entered into force in 1883, covers patents, trademarks and other industrial property rights. The Berne Convention, which entered into force in 1886, 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, to establish standards on aspects of trade regarding the protection of intellectual property, as many governments as possible need to take part in framing an international agreement. As a result, GATT negotiators developed the Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) — one of the most important new areas in the Uruguay Round negotiations. A final consensus on the TRIPS Agreement was reached in Marrakesh in April 1994. The TRIPS Agreement took effect on January 1, 1995.

2. LEGAL FRAMEWORK

The TRIPS Agreement

Although a few problems remain, the TRIPS Agreement, which took effect on January 1, 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) in principle, it 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 IPR 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 contains detailed provisions on the procedures for enforcing rights should they be infringed; and (e) it contains dispute-settlement procedures. A detailed overview of the major aspects of the TRIPS Agreement is provided in Figure 12-1.

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 (copyrights). 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. The TRIPS Agreement adopts the national treatment exceptions found in the Berne and Paris conventions and the MFN exceptions found in existing international 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 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 authorizing compulsory licenses. -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. -The TRIPS Agreement obligates signatories to provide the legal means to prevent misrepresentations of geographical indications and requires additional protection for wines and spirits in relation to geographical indication.
Enforcement	The TRIPS Agreement requires that domestic enforcement procedures be fair and equitable. Enforcement may be conducted via the civil and criminal judicial process, administrative procedures, including border measures and administrative remedies.
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 had a transitional period of one year from the date of entry into force of the WTO Agreement; developing countries and transformation countries had five years (until January 2000); and least-developed countries had 11 years (until January 2006) (Articles 65 and 66)※1. Developing countries that do not provide product patent protection are accorded an additional transitional period of five years (ten years in total) for application of the provisions on product patents※2. The TRIPS Agreement also contains provisions that, from the date of entry into force of the Agreement, require developing countries during the transitional period to: (a) provide a means for filing patent applications for pharmaceutical and agricultural chemical products, and (b) grant exclusive marketing rights for pharmaceutical and agricultural chemical products that are the subject of a patent application under certain conditions. ※1 The TRIPS Council decided in November 2005 to extend the transition period for least-developed country Members until July 2013. ※2 The TRIPS Council decided in July 2002 to waive pharmaceutical patents protection for least-developed countries until January 2016, with annual reviews to be held during this period.

3. ECONOMIC ASPECTS AND SIGNIFICANCE

The IPR system provides 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 creativity 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. However, 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, reducing the social benefits to consumers by limiting the industrial application of technology and knowledge. It is therefore important to seek a balance between the above-mentioned points.

Second, marks and indications of goods and services, such as trademarks and geographical indications, enable businesses to maintain the public trust and to promote fair competition.

To balance these competing interests, intellectual property rights systems need to be instituted carefully so as not to prevent free and fair competition taking into account those aspects. Essentially, those systems should be designed in line with the national policy of each country; however, minimum institutional harmonization at the international level is needed along with growing international trade of goods and services.

The Impact of Introducing a New IPR System

When introducing a new international IPR system, 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 to the developed countries who create the intellectual property. This concern has made negotiating the introduction of new IPR systems more difficult.

The Trade Distortionary Effects of Inadequate or Inappropriate Protection of IPR

As international economic activity is growing and thereby the importance of intellectual property is increasing, the trade distortionary effects of inadequate or inappropriate protection of IPR has become increasingly worrisome.

First, if a country's IPR system permits excessive intellectual property protection, or discriminates against foreign interests, or varies widely from generally agreed-upon

international rules and procedures, excessive time and money must be spent in the acquisition and enforcement of rights of foreign origin, which could be a non-tariff barrier.

Second, inadequate protection of intellectual property in a specific country in the growing free trade 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, having a direct and adverse impact on the normal economic activities of the property holder and thereby possibly reducing the economic incentives for new product development. Furthermore, regulations that prevent property owners from exercising their legitimate property rights, such as unreasonable time limits on technology licensing contracts entered into with foreign companies or prohibitions on confidentiality obligations after the completion of a contract, 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.

Considerations in New Rulemaking

There is an underlying acknowledgement that appropriate protection for intellectual property rights is vital to further promotion of free trade and sound economic development. We note, however, that in establishing this system, consideration will need to be given to: (1) assure fair and equitable competition; (2) address the impact of the income redistribution from the introduction of the new system; and (3) secure improvements in economic welfare that will promote new intellectual creation and business.

3. RECENT DEVELOPMENTS

Work in the Council for TRIPS

The TRIPS Council held four formal meetings in 2006 and several informal meetings on TRIPS Agreement issues, including geographical indications, the relationship between the TRIPS Agreement and Convention on Biological Diversity (CBD). In addition to the Built-in Agenda, the Council also discussed issues from the Doha Ministerial Declaration including geographical indications, the relationship between the TRIPS Agreement and CBD and the Transitional Review Mechanism of China.

Implementation Review under the Council for TRIPS

Implementation Reviews of the TRIPS Agreement, conducted by the TRIPS Council, have been pursued using a question-and-answer format based on the notified national implementing legislation. As of 1996, Reviews have been conducted in descending order beginning with developed countries, then those developing country members that completed implementation by 2000 (the transitional period established for developing countries), remaining developing countries, and finally new WTO Members. While there have been reports from some developing country Members that implementation has not been completed, the reviews have generally proceeded smoothly and have been completed.

The Protocol of accession stipulates that a transitional review should be held for China, which was approved to join in November 2001. In the fifth transitional review, conducted by the TRIPS Council in October 2006, Japan, the US and the EU were particularly active in their questioning of China's implementation. While these Members acknowledged that China had improved its IPR regime, they requested China to further improve focus on its enforcement mechanisms.

Discussions of Geographical Indications

"Geographical indications" refer to those indications which identify a product based on its origin within a territory or region of a Member and is associated with a certain quality and/or reputation (*e.g.*, "Champagne" (a wine) or "Gorgonzola" (a cheese)). Under the TRIPS Agreement, geographical indications are protected as intellectual property rights.

Article 22 of the TRIPS Agreement protects geographical indications in general, but allows for products not produced in the geographic region to be labelled as "like" or "style" (*e.g.*, "Gorgonzola type" cheese). However, Article 23 grants powerful legal protection to geographical indications for wines and spirits that does not permit "kind",

"like", "type" or "style" forms of labelling. Protection as stipulated in Article 23 is referred to as "additional protection" because it goes beyond the protection afforded under Article 22.

Regarding geographical indications, the Doha Ministerial Declaration of 2001 (Paragraph 18) provided for: (i) negotiation of the establishment of a multilateral system for the notification and registration of geographical indications for wines and spirits within the framework of the new round (Built-in Agenda); and (ii) the granting of additional protection of Article 23 for geographical indications for products other than wines and spirits. The TRIPS Council was instructed to report its discussions to the Trade Negotiations Committee by the end of 2002.

Following vigorous discussions, the Hong Kong Ministerial Declaration of December 2005 resolved to: (i) intensify negotiations regarding the establishment of a multilateral system for the notification and registration of geographical indications for wines and spirits so as to complete within the overall time-frame for the conclusion of the negotiations that was foreseen in the Doha Ministerial Declaration (Paragraph 29); and (ii) intensify the consultation process concerning the extension of the protection for geographical indications provided for in Article 23 of the TRIPS agreement to products other than wines and spirits, and take appropriate action by the General Council by July 31, 2006 at the latest (Paragraph 39).

In 2006, active discussions were held at special sessions of the TRIPS Council on the establishment of a multilateral system for the notification and registration of geographical indications for wines and spirits. Also, the granting of additional protection for geographical indications for products other than wines and spirits was discussed at meetings, under the auspices of the WTO Director-General and Deputy Director-General. The EU, Switzerland, India and others argued for further strengthened protections; the US, Canada, Australia, New Zealand and others argued for maintaining the current levels of protection stipulated under the TRIPS Agreement. The parties have been unable to compromise, and discussions are ongoing.

Relationship between the TRIPS Agreement and the Convention on Biological Diversity (CBD)

The Convention of Biological Diversity (CBD), which went into effect in 1993, includes provisions related to intellectual property. The Doha Ministerial Declaration of November 2001 (Paragraphs 12(b) and 19) provided for examination of the relationship between the provisions of the CBD and the TRIPS Agreement and it was mainly discussed at the TRIPS Council. The Hong Kong Ministerial Declaration of December 2005 decided to intensify the consultation process and to take appropriate action by the General Council by 31 July, 2006 at the latest (Paragraph 39)

In 2006, discussions were held at meetings of the TRIPS Council and under the auspices of the WTO Deputy Director-General. Some developing countries, such as

India, Brazil and Peru, argue that the TRIPS Agreement should be amended to include a disclosure requirement of source and country of origin of genetic resources, prior informed consent to the use of genetic resources and provisions evidencing fair and equitable benefit sharing in order to obligate disclosure of such information in patent applications.

To the contrary, Japan, the US and other countries find no conflict between the TRIPS Agreement and the CBD, and believe that it is possible to apply the two agreements in a mutually supportive manner. Therefore, there is a large gap between those countries that believe that amendment of the TRIPS Agreement is unnecessary in order to achieve the purpose of the CBD and those countries that believe it is necessary. Discussions have not converged yet.

EC Enforcement Proposal

Following the proposal concerning enforcement put forth by the EC since June 2005, a joint statement was submitted at the regular meeting of the TRIPS Council held in October 2006 requesting discussions concerning a method for efficiently implementing provisions relating to enforcement under the TRIPS Agreement, with the EC, Japan, the US and Switzerland. While Australia, Canada and other countries reacted favorably, developing countries including Brazil, Argentina, China and India displayed strong opposition to the very fact that the issue had been placed on the agenda as implementation was left to the discretion of each country and the discussions exceeded the authority of the TRIPS Council. Thus, agreement regarding the handling of enforcement issues was not obtained.

As seen in Part I, however, it is clear that the core issue regarding compliance with the TRIPS agreement in Asian countries is the lack of effective enforcement. Effective enforcement of intellectual property rights is essential for economic development in these countries. Accordingly, Japan must actively join in efforts to deal with this issue.

Amendment of TRIPS Agreement concerning TRIP and Public Health

Based on the Doha Ministerial Declaration of 2001, a decision was adopted at the General Council held on August 30, 2003 concerning specific resolutions related to use of compulsory licenses by developing countries that do not have the capacity to manufacture pharmaceutical products. It was agreed to temporarily waive the obligations stipulated in Articles 31(f)(h) of the TRIPS Agreement, making possible the export of pharmaceutical products manufactured through compulsory licensing to developing countries that do not have manufacturing capacity. Since then, at the meeting of the General Council held on December 6, 2005, an amendment that reflected the content of the decisions was incorporated into Article 31.2 of the TRIPS Agreement. Its annex and the appendix to the Article were adopted with the recalling of the Chairman's statement of August 30, 2003.

At the TRIPS Council, the status of implementation of these decisions and acceptance of the protocol by the various countries was reported by the Secretariat.

Considerations Regarding Other Issues

"Non-violation," which has been the subject of dispute settlement under GATT, refers to an action by a Member which, while not violating the TRIPS Agreement *per se*, infringes on the interest of other Members. The Doha Ministerial Declaration of 2001 called for the continued examination of this issue with a view to defining the scope and form of non-violation by the Fifth WTO Ministerial Conference. Although the General Council, in July 2004, decided to continue deliberations until the Sixth Ministerial Conference, work was not completed by the end of this period. It was decided in the Hong Kong Ministerial Conference of December 2005 that postponement of application would be extended to the Seventh WTO Ministerial Conference. This issue was on the agenda of the TRIPS Council in 2006 as well, but no significant progress was seen in discussions.

"Non-violation", which has been the subject of dispute settlement under GATT, refers to an action by a Member which, while not violating the TRIPS Agreement *per se*, nevertheless infringes on the interest of other Members. The Doha Ministerial Declaration of 2001 called for the continued examination of this issue with a view to defining the scope and form of non-violation by the September 2003 Fifth Ministerial Conference. Although the General Council in July 2004 decided to continue the discussion until the Sixth WTO Ministerial Conference, no conclusion could be reached within the agreed upon frame time. The Hong Kong Ministerial Conference in December 2005 decided that the application of the Agreement was to be further postponed until the Seventh WTO Ministerial Conference.

Overview of TRIPS Dispute Settlement

Since the TRIPS Agreement took effect on January 1, 1995, 24 matters have been referred to consultations under the WTO dispute settlement procedures; of these matters, 9 panels have been established.

Until 2000, most of the cases dealt with issues between developed country Members after the transitional period, developing country Members regarding the national treatment, and MFN obligations incurred by Members at the time the Agreement took effect. Due to the recent intense debate regarding the TRIPS Agreement, more matters have been referred to dispute settlement procedures. Now that the TRIPS Council has conducted Member implementation reviews, Japan urges Members to focus not only on WTO-inconsistent legislation, but also on further improvements in enforcement by actively identifying problems and cooperating with rights holders.

Japan will continue to monitor the status of legal systems during the Member reviews and also examine disputes between Members. Japan may find it necessary to become more active in some cases.

Column: The Unique US Intellectual Property Protection System

Among developed countries, the United States has a unique intellectual property protection system; for example, the United States still maintains a "first-to-invent" system and has not established explicit regulations concerning subdivided rights contained within a copyright. Although differences of systems alone provide insufficient evidence to argue that there is a problem with the system, protecting intellectual property rights through principles and procedures that differ from other countries imposes a high cost for the use of the system. This makes it more difficult to foresee whether intellectual property rights can be obtained from the viewpoint of other countries, possibly hindering the liberalization and facilitation of trade and investment. We discuss here those areas of the US intellectual property protection system that Japan finds particularly problematic.

1) Patent

Japan has sought improvements in several problematic areas through the Japan-US Framework Talks within the Working Group on Intellectual Property Rights. In 1994, an agreement was reached to make improvements to the US intellectual property system. However, this agreement has yet to be fully implemented and Japan continues to seek implementation. In July 1999, Japan submitted a proposal to the WTO General Council requesting that the next round of comprehensive trade negotiations include a review of the TRIPS Agreement focusing on the "first to invent" system and early disclosure systems. Japan also seeks improvements in administration regarding the unity of inventions.

First-to-Invent System

The United States is the only country in the world to maintain a first-to-invent system. While this principle is not in violation of the TRIPS Agreement, the first-to-invent system is problematic because: (a) the validity of a patent is neither predictable nor secure since 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 to determine who the first inventor is; and, (c) there is no system for a third party to start proceedings to determine 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 such inventors in an overlapping manner, which would be unfair for the third party.

These problems have also been acknowledged by the United States, and movement toward patent reform has been observable in the submission of a patent reform bill, which included provisions for shifting to the "first-to-file" system, in the

House of Representative in June 2005 and the Senate in August 2006 (these bills were not enacted and died at the end of the 109th session of Congress). At the meeting of developed countries concerning patent system harmonization in September 2006, it was agreed to prepare a draft treaty based on a framework proposal that includes the principle of a "first-to-file" System. To promote the international harmonization of patent laws, the United States should expedite a change to a "first-to-file" system.

Limited Early Publication System

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

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

The aforementioned patent reform bill includes an amendment to publish all patent applications.

Extension of Patent Term

Based on an agreement between Japan and the US reached in 1994, the patent term was amended to 20 years from the date of first application. This modified the US "submarine patent" provision that enabled patents on obsolete technology to continue for 17 years after the date the patent was issued. 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 November 29, 1999, eliminated the ceiling on extensions to the patent term based on delays in review and interference procedures. The amendment allowed the patent term to be extended because of procedural delays for which the US Patent and Trademark Office was found responsible. 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 being granted, thereby extending the patent term by the amount of the delay without any disclosure.

Re-examination system

As a result of the above 1994 agreement between Japan and the US, an agreement was reached on the re-examination system that expanded the reasons to seek a re-examination and expanded the opportunities for third-party participation in the re-examination process. The amendments to the Patent Law on November 29, 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 several problems with the US re-examination system, including: (a) it does not accept inadequate specification of claims as a reason to seek re-examination; and (b) it does not, in fact, guarantee third-parties the opportunity to dispute the validity of patent rights because a decision in re-examination of a patent validity eliminates the right of a third party to again seek nullification of the patent not only on the grounds that the third party made its claims in subsequent suits during the re-examination proceedings, but also that the same third party could have made its claims in subsequent suits during the re-examination proceedings.

The patent reform bill mentioned above includes an amendment to establish post-grant opposition procedures, which is a new system to resolve problems of the current re-examination system.

The Prior Art Effect of International Applications

An international application, which has been submitted in a country along with the translation of the application into the official language of the country under the Patent Cooperation Treaty, should be given prior art effect as of its filing date (or the priority date, if any). Similarly, 35 U.S.C.§ 102(e) gives prior art effect to an international application as of its international filing date, if published in English. However, unless an international application is published in English, 35 U.S.C.§ 102(e) is not applicable, and even if the English translation of the international application is submitted to the United States, the application has prior art effect only on or after the date when the international application is published. In other words, there is a difference in the applicability of 35 U.S.C.§ 102(e) concerning the prior art effect of an international application in the United States depending on whether an international application is published in English. This type of discriminatory treatment of an international application is a significant problem.

The patent reform bill and framework proposal of the treaty mentioned in above includes a provision to abolish the aforementioned discriminatory treatment. Therefore, the future of this amendment has been attracting public interest.

2) Copyright and Related Rights

Japan requests the United States to revise, and/or clarify the legal interpretation of, the US Copyright Act with regard to several of the problematic areas under the "Regulatory Reform and Competition Policy Initiative." We also seek improvements in expansion of the subjects protected by "Moral Rights" and the protection of "Unfixed Works."

Clear Stipulation of the Right of Making Available

In December 1996, the World Intellectual Property Organization (WIPO) adopted "WIPO Copyright Treaty (WCT)" and "WIPO Performances and Phonograms Treaty (WPPT)" to respond to the development of information and communication technology. These two treaties grant authors, performers or producers of phonograms exclusive rights, "authorizing the making available to the public of their works, performances or phonograms, in such a way that members of the public may access these works from a place and at a time individually chosen by them," (right of making available, or, so-called right of uploading) in such a ways as to upload these works to computer servers in order to distribute them through the Internet (WCT article 8, WPPT articles 10 and 14).

The Copyright Law of Japan and the EU Copyright Directive provide for the right of making available or uploading. However, the US Copyright Act does not clearly provide for such a right, despite the fact that the United States ratified these two treaties. In the *Napster* case and the *Grokster* case, which examined the legality of the exchange between users of music files stored in their computers via the Internet without the consent of the rights holders, the federal appeals court and US Supreme court did not make any reference to the violation of the right of making available or uploading. It remains ambiguous how the US Copyright Act addresses this right.

This situation could be regarded as a violation of WCT (Article 8) and WPPR (Articles 10 and 14) and may cause serious problems for the proper distribution of Japanese works and phonograms in the United States, as well as violate the exclusive rights of Japanese copyright holders as the Internet rapidly expands. Therefore, Japan requests the United States to expressly establish the right of making available within the US Copyright Act and clearly stipulate the contents of the right as soon as possible.