

Chapter 12

PROTECTION OF INTELLECTUAL PROPERTY

1. 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 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 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 administration is discriminatory.

To address the trade distorting effects 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. 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 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 developed the Trade-Related Aspects of Intellectual Property Rights (TRIPS) — 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 and took effect on 1 January 1995.

2. 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) 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 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

	<p>Berne Convention will thereby be obligated to meet the standards of these conventions.</p>
<i>Basic Principles</i>	<p>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 existing international agreement and multilateral agreements.</p>
<i>Levels of Protection (Standards)</i>	<ul style="list-style-type: none"> -In the area of copyright 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 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.
<i>Enforcement</i>	<p>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, as well as through the criminal justice process.</p>
<i>Dispute Settlement</i>	<p>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.</p>
<i>Transitional Arrangements</i>	<p>Developed countries have a transitional 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 are accorded an additional transitional 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 dur-</p>

	<p>ing the transitional period, from the date of entry into force of the Agreement the developing country must: (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.</p> <p>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.</p>
<i>Amendment</i>	<p>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.</p>

3. RECENT TRENDS

Work in the Council for TRIPS

The TRIPS Council held five formal meetings in 2002 and several informal meetings on issues such as geographical indications, the TRIPS Agreement and public health.

In addition to the Built-in Agenda, the Council discussed issues from the Doha Ministerial Declaration, such as the TRIPS Agreement and public health, the protection of geographical indications and implementation. It also conducted legislation reviews for new Members, China and Chinese Taipei.

Implementation Review under the Council for TRIPS

Implementation Reviews of the TRIPS Agreement, conducted by 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 had finished implementing their domestic legal systems 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. They were completed dur-

ing 2001.

In September 2002, the TRIPS Council held legislation reviews for China and Chinese Taipei, both of which joined in November 2001 (it also held a transitional review for China at this time). Japan, the U.S. and the EU were particularly active in their questioning of China. (For details, *see* Chapter 3 China and Chapter 4 Chinese Taipei.)

Discussions of Geographical Indications

Geographical indications, an issue that is part of the Built-in Agenda, has been discussed at the TRIPS Council since November 1996. The Doha Ministerial Declaration of 2001 (Paragraph 18) provides 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; (ii) the granting of additional protection of Article 23 for geographical indications for products other than wines and spirits. The TRIPS Council is instructed to report its discussions to Trade Negotiations Committee by the end of 2002.

The TRIPS Council actively discussed geographical indication issues during 2002. The EU, Switzerland, Eastern Europe, 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. This argument has continued, and no conclusion was reached during the discussions.

Discussions of the TRIPS Agreement and Public Health

The TRIPS Council began discussing the relationship between the TRIPS Agreement and access to medicine in 2000, following the “Declaration on the TRIPS Agreement and Public Health” in 2001, the Council has continued to discuss these issues. The Declaration instructs the TRIPS Council to find an expeditious solution to the compulsory licensing problem facing WTO Members with insufficient manufacturing capacities in the pharmaceutical sector and to report to the General Council before the end of 2002. Intensive discussions took place in formal meetings of the TRIPS Council and also in a number of informal meetings.

During the TRIPS Council and General Council meetings in 2002, Members recognised the gravity of the public health crisis caused by the spread of infectious diseases such as AIDS and the need for an expeditious solution. There were strong disagreements over the specific methods to be used in solving this problem, particularly in regard to the legal mechanisms for waivers or amendments to the TRIPS Agreement and the qualifications for the importing and exporting countries that would be eligible for the mechanism.

During the final discussions in December 2002 and thereafter, Members exhibited a certain amount of flexibility but were unable to form a consensus. Discussions will continue in the hope of an early resolution.

Considerations Regarding Other Issues

Japan and many other developed countries provided information on their respective measures pursuant to Article 66.2, for the purpose of promoting and encouraging technology transfer to least-developed country Members during 2002. Some least-developed countries, however, called for more information and more effective measures.

Regarding Article 27.3(b), which is the exemption provision on the patentability of plants and animals, the relationship between the TRIPS Agreement and the Convention on Biological Diversity, and the protection of traditional knowledge and folklore, some developing countries argue that the TRIPS Agreement should include prior consent to the use of genetic resources, obligations to indicate the source of genetic resources and provisions for fair and equitable distributions of profits.

Overview of TRIPS Dispute Settlement

Since the TRIPS Agreement took effect on 1 January 1995, 24 matters have been taken into consultation under the WTO dispute settlement procedures, and 8 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 most-favoured-nation obligations incurred by Members at the time the Agreement took effect. Due to the recent intense debate regarding the TRIPS Agreement, there have been matters involving dispute settlement procedures. Now that the TRIPS Council has conducted the agreement implementation reviews, Japan urges Members to focus not only on WTO-inconsistent legislation but also on further improvements in enforcement by active efforts to identify problems and cooperation with rights holders.

Japan will continue to monitor the status of legal systems during the Member reviews and also to examine disputes between Members. Japan may find it necessary to take responses where appropriate.

4. ECONOMIC IMPLICATIONS

The intellectual property rights 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. 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.

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 free and fair competition.

The Impact of Introducing a New IPR System

When introducing a new intellectual property rights (IPR) 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 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 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 economic incentives and allocations of resources 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, and 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.

Second, if each country's intellectual property rights system causes excessive intellectual property protection, or discriminates against foreign interests, or varies widely from generally agreed-upon international rules and procedures, time and money must be spent in the ac-

quisition 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: (1) to assure fair and free competitive conditions; (2) to address the impact of the income redistribution from the introduction of the new system; and (3) to secure improvements in economic welfare that will promote new intellectual creation and business.

The Unique US Intellectual Property Protection System

Among developed countries of the world, the United States has a unique intellectual property protection system, for instance, the United States still maintains the “first-to-invent” system. Such intellectual property systems are potentially obstructive to the liberalization of trade and investment. In this box, we discuss those areas of the U.S. intellectual property protection system that Japan finds particularly problematic.

1. PATENT

Japan has sought improvements in several problematic areas through the U.S.-Japan Framework Talks within the Working Group on Intellectual Property Rights. In 1994 an agreement was reached to make improvements to the U.S. intellectual property system. 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 is problematic for the following reasons: (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 sys-

tem 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 such inventors in an overlapped manner, which would be unfair for the third party.

Japan has made the United States aware of these 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 completely fulfil the Japan-U.S. agreement on the early publication system of all patent applications, in that it allows the applicant to apply for nondisclosure of the U.S. applications not filed in foreign countries and notations in U.S. 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.

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. This modified the provision allowing US “submarine patent” that enable 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 29 November 1999 eliminated the ceiling on extensions to the patent term based on delays in review and interference procedures. This amendment allowed the patent term to be extended because of procedure delays for which the U.S. Patent and Trademark Office is found responsible. This has the potential to create a new submarine patent problem, because applications filed only in the U.S. 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

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 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 several 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 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 re-examination could have made its claims in subsequent suits during the re-examination proceedings.

2. COPYRIGHT AND RELATED RIGHTS

Japan requests the United States revise, and/or clarify the legal interpretation of, the U.S. Copyright Act with regard to several of problematic areas under the “Regulatory Reform and Competition Policy Initiative.” We also seek improvements in expansion of the subjects protected by “Moral Rights” and protection of the “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 to 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 Internet (WCT article 8, WPPT articles 10 and 14).

The Copyright Law of Japan and the EU Copyright Directive provides for the right of making available or uploading, however, the U.S. 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, 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 Circuit Court did not make any reference to the violation of the right of making available or uploading. It is ambiguous how the US Copyright Act deals with 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 right of Japanese copyright holders as the Internet rapidly expands. Therefore, Japan requests the United States expressly establish the right of making available within the US Copyright Act and clearly stipulate the contents of the right as soon as possible.