



International Chamber of Commerce

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**Policy
statement**



Prepared by the ICC Commission on
Intellectual Property

Cross-Retaliation Under The WTO Dispute Settlement Mechanism Involving TRIPS Provisions

Highlights

- Relationship with WIPO treaties and national treatment principles
- Effect on compliance with WTO obligations
- Problems relating to the required temporary nature of the suspension
- Proportionality between the level of suspension and the damage suffered
- Possible damage affecting parties not involved in the dispute
- Careful consideration of potential problems required before taking any decision concerning the suspension of IP rights

I. Background

Under the World Trade Organization's (WTO) Dispute Settlement Understanding (DSU), a complainant party may suspend benefits under the WTO Agreements if the respondent party has not come into compliance with its obligations under the WTO Agreements as determined by the WTO Dispute Settlement Body (DSB). The WTO's DSU provides in certain circumstances for "cross-retaliation" by complainant parties – suspending benefits relating to WTO Agreements or sectors not the subject of the underlying dispute. Some countries have proposed to cross-retaliate by suspending obligations under the WTO's Agreement on Trade-Related Aspects of Intellectual Property (TRIPS).

II. Cross-retaliation involving intellectual property (IP) rights (TRIPS)

According to Article 64 of TRIPS¹, the DSU applies to the settlement of disputes under TRIPS, with the exceptions established therein. Further, Appendix 1 of the DSU expressly mentions TRIPS as one of the agreements covered by the DSU. Therefore, the DSB authorizes the suspension of rights and obligations under TRIPS as a result of commercial disputes before the WTO.

Two legal questions have been raised in this context:

1. Whether suspension of rights and obligations under TRIPS would affect obligations under WIPO Treaties

Article 2.2 of TRIPS states that

"Nothing in Parts I to IV of this Agreement shall derogate from existing obligations that Members have to each other under the Paris Convention, the Berne Convention, the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits."

Although the DSU is mentioned in Part V of TRIPS, the substantive provisions of those Conventions are embodied in TRIPS, and almost all TRIPS members are also parties to those Conventions. So it would appear that TRIPS obligations incorporating by reference provisions under WIPO Conventions can be suspended under the DSU. However, the effect of the suspension of TRIPS obligations on WTO members' obligations under corresponding WIPO Conventions remains unclear as demonstrated by the DSB ruling in the Ecuador vs. EC dispute (DS27) below:

¹ "1. The provisions of Articles XXII and XXIII of GATT 1994 as elaborated and applied by the Dispute Settlement Understanding shall apply to consultations and the settlement of disputes under this Agreement except as otherwise specifically provided herein.

2. Subparagraphs 1(b) and 1(c) of Article XXIII of GATT 1994 shall not apply to the settlement of disputes under this Agreement for a period of five years from the date of entry into force of the WTO Agreement.

3. During the time period referred to in paragraph 2, the Council for TRIPS shall examine the scope and modalities for complaints of the type provided for under subparagraphs 1(b) and 1(c) of Article XXIII of GATT 1994 made pursuant to this Agreement, and submit its recommendations to the Ministerial Conference for approval. Any decision of the Ministerial Conference to approve such recommendations or to extend the period in paragraph 2 shall be made only by consensus, and approved recommendations shall be effective for all Members without further formal acceptance process."

"The Suspension of TRIPS Obligations and the Relation with the Conventions Administered by World Intellectual Property Organisation (WIPO)

(...)It is not within our jurisdiction as Arbitrators, acting pursuant to Article 22.6 of the DSU, to pass judgment on whether Ecuador, by suspending, once authorized by the DSB, certain TRIPS obligations, would act inconsistently with its international obligations arising from treaties other than the agreements covered by the WTO (e.g. the Paris, Berne and Rome Conventions which Ecuador has ratified). It is, if at all, entirely for Ecuador and the other parties to such treaties to consider whether a specific form chosen by Ecuador for implementing such suspension of certain TRIPS obligations gives rise to difficulties in legal or practical terms under such treaties."

In that case, arbitrators preferred to avoid issuing an opinion on the impact of such suspension on WIPO Conventions, leaving the matter to be handled by national courts, following international law rules such as the Vienna Convention on the Law of Treaties, depending on whether the supposedly violated treaty is prior to the WTO Agreement or not, among other circumstances. The situation is equally complex in relation to suspension of IP rights *vis-a-vis* complainants' obligations under bilateral or regional agreements.

2. The application of the national treatment principle provided for in TRIPS in relation to cross-retaliation measures

Article 22.3(f) (iii) of the DSU² indicates which categories of IP rights may be suspended, and it excludes Part I of TRIPS, where the national treatment and most-favored nation provisions can be found (Articles 3 and 4). One can therefore conclude that these two provisions do not apply in cases of suspension of IP rights under the DSU.

III. Practical considerations

The DSB authorized suspension of IP rights in the Ecuador vs. EC (bananas) and Antigua & Barbuda vs. US disputes (gambling services) as well as in the Brazil vs. US dispute (cotton), but suspension of IP rights has never taken place.

Despite the lack of concrete cases, ICC has tried to identify some special circumstances and problems raised by cross-retaliation by means of the suspension of rights and obligations under TRIPS in the context of WTO disputes.

1. Uncertainty as to whether suspension of IP rights generates compliance with WTO obligations

When the complainant wins the dispute and the offending party does not comply with the decision, the complainant can threaten the offending country with commercial sanctions. The DSU recommends that sanctions should occur in the same sector or under the same WTO

² Article 22.3(f) of the DSU: "for purposes of this paragraph, 'sector' means: ...
(iii) with respect to trade-related intellectual property rights, each of the categories of intellectual property rights covered in Section 1, or Section 2, or Section 3, or Section 4, or Section 5, or Section 6, or Section 7 of Part II, or the obligations under Part III, or Part IV of the Agreement on TRIPS;"

agreement to which the dispute refers, and only exceptionally in another sector and under another agreement.

It has been argued that economically small countries would have little leverage by applying commercial sanctions against a much larger country because the competitive impact on the larger country may be too small to promote compliance³, so they would prefer to threaten the offending country with the suspension of obligations under TRIPS.

In view of the small number of cases where suspension of IP rights was allowed and the lack of implementation of such suspension so far, it is premature to affirm that suspension or the threat of suspension of IP rights will induce compliance with WTO rules by the offending country.

2. The required temporary effect of the suspension of IP rights

According to Article 22, paragraph 8, of the DSU, such suspension must be temporary and must last only until the defaulting party complies with the DSB's decision, until the measure found to be inconsistent with the WTO agreement is removed or until the parties find a mutually agreed solution to the dispute.

Since the suspension is temporary, the IP owners' rights must be restored after a limited time. Some of the problems that may arise are set out below.

- Owners of suspended rights may suffer permanent damage that restoration cannot amend; for example, they might not be able to retrieve lost reputations, or patent terms will be reduced in the event there is no interruption of the patent life during the suspension period.
- It is impossible to ensure that a suspension relating to TRIPS obligations would have effects only during the temporary period allowed. Goods manufactured or copyrighted material released freely during the suspension period might still be available, in the market or in stock after the restoration of IP rights, so legitimate products/works would coexist with non-legitimate ones in the market, thus creating confusion and prejudice to consumers.
- Due to the uncertain and transitory nature of the suspension, companies or individuals might be unwilling to risk manufacturing any goods, despite the "free use" period. This can result in lack of supply of certain goods in the market; as regards pharmaceuticals, for example, public health problems may occur.
- The lack of protection for IP rights, although temporary, may also discourage foreign investment in the country. Technological IP assets are developed and commercialized within a mid to long-term time frame. Instead of spurring short term action, a suspension will create concerns about the complainant party's innovation policy.

³In this regard, it is worth quoting the following passage in the arbitrators' decision on the Ecuador vs. EC dispute on the EC regime for importation and distribution of bananas (WT/DS27/ARB/ECU, 24 March 2000):

"In such a case, and in situations where the complaining party is highly dependent on imports from the other party, it may happen that the suspension of certain concessions or certain other obligations entails more harmful effects for the party seeking suspension than for the other party."

3. The required proportionality between the level of suspension and the damage suffered

According to Article 22, paragraph 4, of the DSU, the level of suspension of rights and obligations authorized by the DSB must be equivalent to the damage suffered by the complainant in the dispute.

As far as IP rights are concerned, this equivalence is not very easily calculated. In the hypothetical situation of damages equal to one million dollars, the "amount" of IP rights to be suspended, if cross-retaliation were permitted, would have to be equivalent to one million dollars. Questions that can arise include:

- It is not easy to calculate the equivalence between the countermeasure to be taken and damages suffered. Some types of countermeasures, such as the suspension of the remittance of royalties until the total amount of damage is reached, may make calculation easier than other possible punitive measures in the area of IP.
- Although analysts can determine the value of a patent or mark, this valuation may not be accurate enough to determine a fair balance between damages and countermeasures to be taken.
- It is not easy to measure, for example, the economic impact of an illegally uploaded copyrighted file on the economic value chain/downstream markets.
- It is not easy to calculate in numerical terms the negative impact of the countermeasure on a company's goodwill and reputation, as a result of the temporary suspension of its IP rights and free circulation of illegitimate goods in the market.

4. Possible damage affecting parties not involved in the dispute

All market players – including those in the complainant country as well as those in third countries not targeted by retaliation – will suffer when IP rights are suspended.

- In the medium to long term, impairment of IP and derived revenue flows hastens the progression from a high return technology domain for all players towards a commodity sector. This defeats the investment expectations of all players, regardless of origin, and punishes those companies that invest in innovation and creativity without regard for nationality. Competitors located in the complainant's country will be constrained in their ability to commercialize their R&D spending through IP. As a result, they will suffer the consequences of IP impairment through price and margin erosion. There is no evidence that reversing the ageing of a market once it has achieved commodity status is possible.
- Retaliation using trademarks and geographical indications would hurt consumers in the complainant country because both of them provide important signals to consumers about product quality, brand reputation, and in some cases after-market service. Additionally, depending upon national grey market rules, counterfeit trademarked goods from a complainant country may leak into neighboring countries.
- Retaliation could also negatively affect entities in the complainant country that have relied upon a stable intellectual property regime – for example licensees, distributors, and retailers of products protected by IP rights – as well as global supply chains.

- Retaliation against copyrighted works, for example, would implicate the creative industries in other territories not only because so many works are co-produced across multiple jurisdictions but because illegal copies in one market could suppress legitimate sales in other markets, particularly digital copies. Therefore, the suspension of IP rights would implicate markets beyond the country targeted.
- The reputation of the complainant country as an R&D platform for innovation and creativity will suffer, hampering its long-term prospects for economic development. For commercial enterprises, the ability to obtain and commercialize the IP assets resulting from innovation and creativity in a predictable and stable legal environment is critical. Singling IP out for retaliation sends a profoundly negative signal to innovators and creators, both local and foreign, that the complainant will punish innovation when other sectors disappoint. One immediate effect of these measures will likely be a reduction in foreign investment and filings of applications for IP protection in the complainant's jurisdiction. This will weaken the very individuals and institutions charged with helping translate R&D investment into new technologies and products locally.

IV. Conclusion

Considering that:

- a. the suspension of IP rights is not likely to compensate the complaining country and the sector affected by the dispute for the damages suffered;
- b. the suspension of IP rights may not generate compliance with WTO obligations by the offending party;
- c. the suspension of IP rights affects parties that are not involved with the commercial dispute and is not likely to benefit the parties that were actually affected by the violation;
- d. the lack of protection for IP rights stimulates a culture of non-compliance that impairs the country's image worldwide and is difficult to reverse;
- e. the suspension of IP rights to solve commercial disputes creates an insecure environment for commercial relations and discourages foreign investment in the country where suspension is applied;
- f. the suspension of IP rights under TRIPS may affect rights and obligations of the same parties under WIPO treaties and render the complainant party in violation of their other international obligations;
- g. the suspension of IP rights would affect the economic value chain of stakeholders in countries not involved in the dispute; and
- h. the complainant country could resort to other forms of retaliation against the offending country to induce the offending country to comply with a WTO decision,

ICC urges governments to carefully consider the many potential problems raised by the suspension of IP rights as a countermeasure to induce compliance with WTO recommendations before taking any decision in this area.



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ICC is the world business organization, a representative body that speaks with authority on behalf of enterprises from all sectors in every part of the world.

The fundamental mission of ICC is to promote open international trade and investment and help business meet the challenges and opportunities of globalization. Its conviction that trade is a powerful force for peace and prosperity dates from the organization's origins early in the 20th century. The small group of far-sighted business leaders who founded ICC called themselves "the merchants of peace".

ICC has three main activities: rule setting, dispute resolution, and policy advocacy. Because its member companies and associations are themselves engaged in international business, ICC has unrivalled authority in making rules that govern the conduct of business across borders. Although these rules are voluntary, they are observed in countless thousands of transactions every day and have become part of the fabric of international trade.

ICC also provides essential services, foremost among them the ICC International Court of Arbitration, the world's leading arbitral institution. Another service is the World Chambers Federation, ICC's worldwide network of chambers of commerce, fostering interaction and exchange of chamber best practice. ICC also offers specialized training and seminars and is an industry-leading publisher of practical and educational reference tools for international business, banking and arbitration.

Business leaders and experts drawn from the ICC membership establish the business stance on broad issues of trade and investment policy as well as on vital technical and sectoral subjects. These include anti-corruption, banking, the digital economy, telecommunications, marketing ethics, environment and energy, competition policy and intellectual property, among others.

ICC works closely with the United Nations, the World Trade Organization and other intergovernmental forums, including the G20.

ICC was founded in 1919. Today it groups hundreds of thousands of member companies and associations from over 120 countries. National committees work with ICC members in their countries to address their concerns and convey to their governments the business views formulated by ICC.

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