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THE BENCH MEMORANDUM

IPLAND – CERTAIN MEASURES AFFECTING THE PROTECTION AND ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

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1. INTRODUCTION

The Case alleges certain violations of the TRIPS Agreement and related GATT claims. It also includes jurisdictional and public international law issues as a result of a free trade agreement negotiated by the parties. In particular, the Case will require teams to demonstrate an understanding of how related and unrelated international agreements affect WTO rights and obligations. While the Case does involve intellectual property, teams should focus on the international obligations resulting from the TRIPS Agreement and other international agreements, not the intricacies of domestic intellectual property law (i.e. prosecuting a patent).
2. SUMMARY OF FACTS

1. Ipland, Freeland and Midonia, all Members of the WTO, share certain common borders with each other. The main highway and corridor linking Freeland and Midonia runs through a narrow strip of Iplandian territory. Midonia and Freeland do border each other, but the vast majority of the Border is covered with impenetrable jungle. There is nothing in the facts to indicate that any of the three countries are landlocked.

2. In March 2003, Ipland, Freeland and Midonia signed a free trade agreement, the Midonia-Ipland-Freeland Free Trade Agreement (MIFFTA), covering several trade sectors, including goods and intellectual property. The Parties agreed that the MIFFTA is consistent with Article XXIV of GATT and Article V of GATS and affirmed existing rights and obligations to existing bilateral and multilateral treaties (including the WTO agreements). The MIFFTA contains a forum selection clause allowing a Party to bring a claim at either the WTO or under the MIFFTA, but provides that under certain instances the responding party can request the matter be decided solely under the MIFFTA (Article 23.9).

3. When notified of the WTO complaint filed by Freeland, Ipland properly invoked Article 23.9 of the MIFFTA. Freeland ignored the written request and has proceeded with its WTO complaint.

4. In 2007, Ipland passed the Local Production Encouragement Act (2007), which provides for a compulsory licence if a patent owner fails to ‘locally work’ a patent. The provision does not distinguish or discriminate between field of technology. Article 15.7 of the MIFFTA provided for the issuance of a compulsory licence for failure to ‘work a patent’.

5. In 2007, Ipland passed the Herbal Remedy Protection Act (2007) is designed to regulate almost all aspects of the production, distribution and use of indigenous herbs. As part of its regulatory role, the Ipland Herb Board (IHB) maintains an extensive licensing system with growers and distributors, applies for patents and registers certification marks and geographical indications (GIs) domestically and abroad and oversees research into the medicinal benefits of the indigenous herbs.

6. An indigenous herb called ‘sambati’ is recognised to have anti-vital properties. Early research indicates that it is likely that sambati could potentially be incorporated into a medicine to treat the T1R1 influenza virus, a recent and as of yet mild virus currently afflicting most of the world.

7. The IHB has registered ‘Sambati’ as a Trademark in Ipland and several other countries, and as a GI under domestic legislation. The IHB has also applied for and received a process patent in Ipland and several other countries.

8. The IHB enforces its intellectual property rights (IPRs), including by alerting officials from the Iplandian Customs Service, when shipments of products are suspected to violate its IPRs. In one instance, Iplandian Customs seized a product on the basis of

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1 The Case should refer to ‘Certification marks’ as opposed to ‘Trademarks’, but the error should not displace substantive WTO-based legal arguments. The fact remains that Ipland is protecting certain IPRs that are not protected in either Midonia or Freeland.
potential Trademark and GI infringement which was entering the country from Midonia and stated that it ‘Contains Sambati’ sourced from Midonian jungle metres from the Iplandian border. The IHB does not have trademark protection for sambati in Midonia or Freeland, nor do those countries recognise the Iplandian GI. In fact, Freeland claims sambati as its own GI.

9. The Iplandian Customs Service, acting in an *ex officio* capacity, also detained several shipments of a Midonian herbal cold and flu remedy destined for Freeland on suspected infringement of the IHB process patent. The product, made exclusively for the Midonian market, was to be parallel imported into Freeland. IHB applications for a process patent were rejected in both Midonia and Freeland.

10. These detentions/seizures were subject to a new Iplandian law (*Protection of Rights Encouragement Act (2007)*) which granted the Customs Service the power to detain goods acting in an *ex officio* capacity, removed the requirement that a rights holder post a $25,000 security when applying to suspend the release of goods at the border. The Act also restricts traders from applying for the release of the goods to ‘no earlier than 10 days after receiving notification of the customs authorities (when acting *ex officio*) decision to suspend the release of the goods.’ Thereafter, the customs authorities must ‘promptly notify’ the rights holder of the suspension. The rights holder then has 10 days to notify customs that it has commenced proceedings.
3. FREELAND’S CLAIM AGAINST THE LOCAL PRODUCTION ENCOURAGEMENT ACT (2007) (‘LPEA’)

• Paragraph 795 of the LPEA reads:

“In accordance with Chapter 15, Article 15.7 of the MIFFTA, a compulsory licence will be issued if a patent owner fails to locally work the patent…”FN

Footnote: “Products patented in but not manufactured or produced in Ipland (i.e. products merely imported into the territory of Ipland) do not constitute a patent being locally worked.”

• Chapter 15, Article 15.7 of the MIFFTA states:

“Each party to this Agreement shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the failure to work a patent.”

a) TRIPS Agreement Article 27.1

• Article 27.1 of the TRIPS Agreement reads:

1. Subject to the provisions of paragraphs 2 and 3, patents shall be available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application. Subject to paragraph 4 of Article 65, paragraph 8 of Article 70 and paragraph 3 of this Article, patents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced.

Freeland should claim there is a violation of the second sentence of Article 27.1 because paragraph 795 of the LPEA discriminates depending on whether the products are imported or locally produced. The LPEA allows for the issuance of a compulsory licence for patented products ‘not manufactured or produced’ in Ipland. Thus, there is an issue of ‘enjoyability’ (i.e. full exercise of patent rights). Freeland should argue that there is discriminatory treatment because a compulsory licence will be issued for a patented drug not manufactured in Ipland whereas same drug would not be subject to a compulsory licence if it were locally produced.

Ipland should not concede the measure violates Article 27.1. Ipland will have to try to persuade the panel that there is no violation in one of two ways. First, Ipland may simply argue that there is no discrimination within the meaning of Article 27.1 because its measure does not prevent patent rights from being enjoyed on the basis of whether products are imported or locally produced. In making this argument, Ipland may assert that: (i) there is no discrimination because all patent rights holders are subject to the same potential risk if they fail to locally work the patent; and/or (ii) issuing a compulsory licence for a ‘failure to locally work’ does not amount to a curtailment, or a discriminatory curtailment, of
the enjoyability of patent rights because WTO Members are expressly authorized to provide for the issuance of compulsory licences when there is a failure to work a patent, pursuant to Article 5 of the Paris Convention (incorporated into the TRIPS Agreement via Article 2.2).

• To establish that there is no discrimination, Ipland will need to focus on what type of discrimination is prohibited under Article 27.1 (see the argument below that this is something more than mere differential treatment), as well as on the meaning and operation of its measure. In particular, what does it mean to 'locally' work a patent? Could the wording of Iplands measures or Article 15.7 of the MIFFTA suggest that 'locally' means something other than 'within the territory of Ipland'? This may in turn raise related issues of the treatment and interpretation of municipal law in WTO dispute settlement. To establish that the issuance of a compulsory licence in the case of a failure to work does not constitute a curtailment of the enjoyment of patent rights, Ipland will need to rely on Article 5(A)(2) and (4) of the Paris Convention, incorporated into the TRIPS Agreement by virtue of Article 2.

➢ Article 5(A)(2) of the Paris Convention confirms a right to grant a compulsory license on the ground of failure to work a patent, which some have interpreted as referring to local working (although successful use of this argument would entail advancing a convincing case that failure to work could be construed as failure to produce locally).

Each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work.

➢ Article 5(A)(4) of the Paris Convention further provides:

A compulsory license may not be applied for on the ground of failure to work or insufficient working before the expiration of a period of four years from the date of filing of the patent application or three years from the date of the grant of the patent, whichever period expires last; it shall be refused if the patentee justifies his inaction by legitimate reasons. Such a compulsory license shall be non-exclusive and shall not be transferable, even in the form of the grant of a sub-license, except with that part of the enterprise or goodwill which exploits such license.

➢ TRIPS Article 2 integrates the substantive provisions of the Paris Convention with the TRIPS rules related to patents:

1. In respect of Parts II, III and IV of this Agreement, Members shall comply with Articles 1 through 12, and Article 19, of the Paris Convention (1967).

2. Nothing in Parts I to IV of this Agreement shall derogate from existing obligations that Members may 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.

• Thus, in considering whether or not there is discriminatory treatment contrary to Article 27.1, the parties arguments should focus on the issue of what constitutes a 'failure to work', including within the meaning of Article 5(A)(2) of the Paris Convention. Is this the same as a 'failure to locally work' a patent, within the meaning of paragraph 795 of the LPEA? Can a patentee be said to have failed to work a patent when it has used the patent in another country and then exported the resulting product? Is importing a patented product working a patent (Freeland could argue) or not (Ipland could argue)?

• Secondly, Ipland can argue that its measure does not violate Article 27.1 of the TRIPS Agreement because it is a discretionary measure and has never been applied (Clarifications, Q15). To make this argument Ipland will have to rely upon the classical mandatory/discretionary distinction used by GATT panels, the status of which is arguably unclear in WTO dispute settlement. Freeland can argue that 'as such' measures can violate WTO obligations even when they have never been applied, that the mandatory/discretionary distinction has no continuing relevance in WTO dispute settlement, and that even if it does continue to exist, the 'discretion' to grant a compulsory licence or not, in a specific case, is not the type of discretion that could save a measure from being found to be inconsistent with relevant obligations under the covered agreements.

• Ipland should use the Vienna Convention on the Law of Treaties (1969) ('VCLT') to substantiate its arguments. This is particularly true when arguing that the Paris Convention should be read together with the TRIPS Agreement, such that Article 5(A) of Paris does not conflict with Article 27.1 of the TRIPS Agreement. The Parties must therefore be familiar with the relevant WTO jurisprudence regarding 'customary rules of interpretation of public international law'. Key principles include:

- A textual approach to ascertaining the ordinary meaning of treaty text – Parties should demonstrate an understanding of the interpretation approach.

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2 In this regard, a corollary issue which may arise is whether the fact that not all of the parties to the dispute are signatories to Paris Convention or the Vienna Convention on the Law of Treaties. However, Party submissions should be able to point out existing jurisprudence that establishes that Paris Convention provisions are considered to be integral to TRIPS, and therefore directly binding on WTO Members, regardless of whether they are separately bound by Paris; and that the Appellate Body has taken the view that the VCLT is considered a codification of customary laws of interpretation, and can therefore be used to guide interpretation of WTO texts, regardless of whether a Member has adhered to the VCLT independently.

set out in the VCLT and how it has been utilised in previous WTO disputes.  

- Ordinary meaning of the words of the text in their context, and in the light of the relevant object and purpose. Parties should engage with the panel report in Canada–Pharmaceuticals, the general relationship between the Paris Convention and TRIPS, and the significance of the Doha Declaration on TRIPS and Public Health (including its legal status) to the dispute. As regards, object and purpose, parties should understand that this element relates to the entire treaty, not simply the relevant provision. In this regard, the role and effect of TRIPS Articles 7 and 8 should be discussed.

- Object and Purpose – Parties should understand that this element relates to the entire treaty, not simply the relevant provision. In this regard, the role and effect of TRIPS Articles 7 and 8 should be discussed.

- Good faith – Parties should understand that this part of Article 31 of the VCLT plays the role of providing a basis for compromise and balance between seemingly conflicting provisions through ‘conflict avoidance’. WTO jurisprudence should be cited, and Party arguments could focus on whether there is indeed a conflict between Paris Convention Article 5 and TRIPS Article 27.

- In dubio mutius – A principle of supplementary interpretation rather than a principle of good faith. The place of the supplementary materials, according to Article 32, is strictly secondary and limited to circumstances where applying Article 31 of the VCLT yields an interpretation where terms remain ambiguous or obscure, or the result reached is manifestly absurd or unreasonable.

- Alternative arguments which Ipland could rely on are based on the fact that while there may be differential treatment for patent holders who do not produce in the country that granted the patent, such treatment does qualify as the type of prohibited discrimination identified in Article 27.1.

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9 This issue was negotiated issue in the Uruguay Round but did not produce a clear outcome. See Carlos Correa, Intellectual Property and International Trade: The TRIPS Agreement, in Correa and Yusuf (eds), p. 240.
The panel in *Canada–Pharmaceuticals* discussed the question of what constitutes discrimination. The panel found:

- The term ‘discrimination’ is ‘a normative term, pejorative in connotation, referring to results of the unjustified imposition of differentially disadvantageous treatment.\(^{10}\)

- Discrimination can result from ‘explicitly different treatment’ (*de jure* discrimination), or from ‘ostensibly identical treatment which, due to differences in circumstances, produces differentially disadvantageous effects’ (*de facto* discrimination).\(^{11}\)

- The panel set a high bar for complainants, finding the wording of the measure did not explicitly discriminate on the basis of technology or product (and, for good measure, that the Canadian government made assurances that the ‘meaning’ of its measure was not limited only to pharmaceuticals).\(^{12}\) The panel also held that the complainants failed to make its case for de facto discrimination, as it could not provide ‘systematic information on the range of industries that have actually made use of [the measure]’,\(^{13}\) and thus could not demonstrate the ‘effects’ of the measure. Finally, the panel found evidence of parliamentary debates focusing on the pharmaceutical sector to be unpersuasive.\(^{14}\)

- The panel concluded the complainant did not prove that ‘the legal scope of Section 55.2(1) was limited to pharmaceutical products, as would normally be required to raise a claim of *de jure* discrimination. Likewise, it was not proved that the adverse effects of Section 55.2(1) were limited to the pharmaceutical industry, or that the objective indications of purpose demonstrated a purpose to impose disadvantages on pharmaceutical patents in particular, as is often required to raise a claim of *de facto* discrimination’.

- Ipland could argue that the promotion of local manufacturing capacity of pharmaceuticals is a valid ground for distinctive, differential treatment without being discriminatory. Thus, at first instance, Ipland’s argument could simply be that its measures do not meet the prohibition of ‘discrimination’ of Article 27.1. To the extent that the treatment is differential and disadvantageous, it could be argued to be justifiable with reference to a legitimate policy objective, particularly if Ipland refers to Article 8.1. Under a related argument, the non-discrimination requirement on the enjoyment of patent rights would be satisfied if there were to be no discrimination in the exercise of patent rights against infringing goods, whether locally produced or imported. This argument is based on the fact that patents confer negative rights (i.e. to prohibit use without authorization of the patented product or process). To be convincing, this argument would need to

\(^{10}\) Report of the Panel, *Canada–Pharmaceuticals*, para. 7.94

\(^{11}\) Ibid.

\(^{12}\) Ibid at paras 7.96-99.

\(^{13}\) Ibid at para 7.102.

\(^{14}\) Ibid at para 7.104.
engage with the characterization of the normal exploitation of patent rights in Canada – Pharmaceuticals.

- If this is unsuccessful, Ipland could broaden the argument to include a contextually based approach, arguing that Articles 7 and 8, in light of the Doha Declaration on the TRIPS Agreement and Public Health, and the waiver/Article 31bis of the TRIPS Agreement and perhaps more broadly to the Doha Declaration on Public Heath for support.15

- On the other hand, Freeland should argue that in contradistinction to the most favoured nation clause of TRIPS Article 4(d), which refers to ‘arbitrary or unjustifiable discrimination’, TRIPS Article 27 simply states ‘without discrimination’, and is thus unqualified and arguably catches all differential treatment.16 Under such a view, even Ipland’s contextual based argument would likely be unsuccessful.

- Freeland should also argue that the panel should transplant the key GATT notion of modifying the conditions of competition between local and foreign goods. If this occurs, a finding of discrimination may be likely.

- The main debate would be whether to restrict the analysis to a pure economic one (i.e. conditions of competition) or to include health issues (i.e. improving domestic production capacity of pharmaceuticals).

- As noted, since local working requirements are arguably covered under Article 5 of the Paris Convention (if failure to work is equated with local working), and Paris provisions have equal status with TRIPS provisions, Ipland should frame the discussion within the scope of the specific provision of TRIPS addressing the issue rather than conceding the violation and only defending the measure under the general exception in Article 30 or 31. It should be noted, Articles 30 and 31 do not provide a defence to violation of the principle of anti-discrimination established in Article 27 – to the contrary, Canada – Pharmaceuticals found that the non-discrimination principles of Article 27 covered the exceptions provided for in Articles 30 and 31 (see below). This aspect of the decision has, however, been heavily criticised in the literature (including by some of the leading trade and IP experts) and Ipland could mount an interesting, and credible, challenge to the finding.17

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15 For details of both the waiver/Article 31bis and the Doha Declaration on TRIPS and Public Health, see http://www.wto.org/english/tratop_e/trips_e/pharmpatent_e.htm.
16 See Report of the Panel, Canada–Pharmaceuticals, para.7.94.
b) **TRIPS Agreement Article 28.1**

- The exclusive rights granted to rights owners in TRIPS Article 28.1 are as follows:
  
  1. A patent shall confer on its owner the following exclusive rights:

      (a) where the subject matter of a patent is a product, to prevent third parties not having the owner’s consent from the acts of: making, using, offering for sale, selling, or importing for these purposes that product;

      (b) where the subject matter of a patent is a process, to prevent third parties not having the owner’s consent from the act of using the process, and from the acts of: using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process.

- Freeland will claim that the issuance of a compulsory licence for patented drugs not locally produced curtails the exclusive right to exclude others from making, selling the drug. Ipland will counter that there is no curtailment of exclusive patent rights because there are no such rights in the case of a failure to work the patent.

- As in Section 1(a), above, the same apparent conflict between Article 28 of the TRIPS Agreement and Article 5(A) of the Paris Convention exists, thus Ipland could use several of the VCLT-based arguments made in the context of the Article 27 claim to defend the measure. Freeland will counter with its own VCLT-based arguments. See analysis in Section 1(a), above.

- If Ipland cannot successfully defend its measures under Article 28, it would need to justify the measure as an exception under Article 31 the TRIPS Agreement.

c) **TRIPS Exceptions**

i) **Article 31**

- If Ipland does not succeed in demonstrating that its measures are compliant with both Articles 27 and 28 of the TRIPS Agreement,\(^\text{18}\) it will argue that its measures are justified by an exception to the Agreement, namely Article 31 or 30.

- Ipland’s first fallback will be to argue that its measures are justified under TRIPS Article 31 which allows for compulsory licensing as ‘other uses’ than those authorised under Article 30. Despite the importance of the Article to TRIPS (and the Doha Declaration on TRIPS and Public Health), there is no jurisprudence on provision

\(^{18}\) It should be noted that Article 27.2 of the TRIPS Agreement does not apply because there is not an exclusion from patentability in any of Ipland’s measures.
In presenting its case, Ipland will stress that Article 31 does not limit the grounds for issuing a compulsory licence (and should also point to paragraph 5 of the Doha Declaration on TRIPS and Public Health which gives political support for the freedom of a Member to determine the grounds for a compulsory license, which a panel would likely be reluctant to contradict).  

As far as working requirements are concerned, Ipland should further argue that the requirements of Article 5A(2) and (4) of the Paris Convention apply by virtue of TRIPS Art.2.1 (and 2.2) (see Section 3 above) – that is, that it has the ‘right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work’, provided it has waited the relevant time period to issue the compulsory licence (i.e. three years from the date of the grant of the patent), the licence is non-exclusive and non-transferable, and that failure to work meant failure to produce locally. However, while the case clarifications specify that there are other regulations governing the grant of compulsory licences, the facts are silent as to whether Ipland's regulatory scheme in fact provides for any of these limitations on the grant of compulsory licences.

Freeland could counter that the above argument relating to the interplay between the Paris Convention and TRIPS is only relevant to establishing whether working requirements are indeed consistent with TRIPS. If it is established that they are not, then Ipland cannot again use the Paris Convention in an attempt to justify its measures. Freeland could further argue that in any event, Ipland's measure does not qualify as the type of limited working requirements that are expressly permitted under the Paris Convention. Article 5(2)(A) allows for compulsory licensing in the event of 'abuses' by the patent holder, including a 'failure to work'. Yet it is not clear that Ipland's measures are aimed at countering 'abuses', or that a failure to work the patent in Ipland could be deemed to be abusive. More concretely, Ipland's measure does not, on its face, provide for the limitations expressly prescribed in Article 5A(4), namely that (1) there can be no application for a compulsory licence for failure to work for 4 years from the date of filing of the patent application or 3 years from the date of grant of the patent; (2) the compulsory licence shall not be granted if the patentee justifies his inaction by legitimate reasons (whatever those might be); (3) any compulsory licence shall be non-exclusive and non-transferable.

Freeland could also argue that Ipland's measures do not meet the various requirements of Article 31, which limit how compulsory licences can be granted and impose various conditions in this regard. Some of the requirements are the same as the above, for instance the requirements in Article 31(d) and (e) that compulsory licences be non-exclusive and non-transferable.

In terms of the Article 27 claim, Freeland should focus its arguments on the holding of the panel in Canada–Pharmaceuticals, which found that Article 27.1

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19 In this regard, the legal status of the Doha Declaration on TRIPS and Public Health could be argued by the parties.
20 Paris Convention, Article 5A(2)
21 Paris Convention, Article 5A(4)
applies to exceptions granted under Article 30[^22] and is equally applicable to Article 31.[^23] Freeland would then argue that any potential justification to any compulsory licence must be non-discriminatory as to whether the patent product is produced locally or imported. Freeland’s argument can be substantiated by the text of Article 27:1 second sentence, which only makes the provision ‘subject to’ Articles 65, 70, 27.3 – meaning the provision applies to and so limits Article 31. Freeland may also argue that this compulsory license is a form of de facto discrimination under Article 3 of TRIPS, on national treatment, citing for example EU-Geographical Indications on the nature of de facto discrimination.

- Freeland can also point to the WTO Secretariat’s explanation with regard to Article 31 conditions that states: ‘[The Article 31] conditions should be read together with the related provisions of Article 27.1, which require that patent rights shall be enjoyable without discrimination as to the field of technology, and whether products are imported or locally produced.’[^24]

ii) Article 30

- Ipland’s other fallback option is to argue that local working requirements fall within one of the ‘limited exceptions’ allowed by Article 30. This option is unlikely to be successful for the reasons detailed below.[^25]

- The three requirements of Article 30:

  (i) limited,
  (ii) not unreasonably conflict with the normal exploitation of the patent; and
  (iii) not unreasonably prejudice the legitimate interests of the patent owner, taking account the legitimate interests of third parties)

Any argument based on Article 30 must discuss the panel’s interpretation of Article 30 in *Canada–Pharmaceuticals*.

  (i) The exception must be ‘limited’. This has been interpreted to mean ‘a narrow exception — one which makes only a small diminution of the rights in question’.[^26] Note that ‘limited’ does mean the economic impact of the measure.

  - In *Canada–Pharmaceuticals*, Canada’s stockpiling exception was found not be ‘limited’ as there were ‘no limitations at all upon the

[^22]: See Report of the Panel, *Canada–Pharmaceuticals*, paras 7.88-91: ‘Article 30 exceptions are explicitly described as ‘exceptions to the exclusive rights conferred by a patent’ and contain no indication that any exemption from non-discrimination rules is intended.’ Ibid at para. 7.91.

[^23]: The panel in *Canada – Pharmaceuticals* observed that it is an ‘acknowledged fact’ that ‘the Article 31 exception for compulsory licences and government use is ... subject to the non-discrimination rule of Article 27.1’.


[^25]: Although it must be noted that it could provide panelist a good opportunity to explore the relationship between Articles 30 and 31.

quantity of production, the stockpiling exception removes that protection entirely during the last six months of the patent term’.  

- Canada’s regulatory review exception was held to be limited because, ‘[a]s long as the exception is confined to conduct needed to comply with the requirements of the regulatory approval process, the extent of the acts unauthorized by the right holder that are permitted by it will be small and narrowly bounded’.  

(ii) The exception must ‘not unreasonably conflict with a normal exploitation of the patent’. The panel found that ‘[normal exploitation] is to exclude all forms of competition that could detract significantly from the economic returns anticipated from a patent’s grant of market exclusivity’.  

- Canada’s regulatory review exception did not conflict with the normal exploitation of the patent as ‘the additional period of de facto market exclusivity created by using patent is not a natural or normal consequence of enforcing patent rights. It is an unintended consequence of the conjunction of the patent laws with product regulatory laws.’  

(iii) The exception must not ‘unreasonably prejudice the legitimate interests of the patent owner, taking into account the legitimate interests of third parties’.  

- The decision of the panel in Canada–Pharmaceutical Patents on this portion of the Article 30 exception is slightly unclear, but what is clear is that the panel held that a ‘legitimate interest’ is not a ‘legal’ interest or right but a ‘normative claim calling for protection of interests that are “justifiable” in the sense that they are supported by relevant public policies or other social norms’.  

- The panel substantiated its interpretation by looking to the negotiating history of this provision (and particularly that of Article 9(2) of the Berne Convention). Furthermore, the panel used an example common to many jurisdictions whereby scientific experimentation without consent during the term of the patent is deemed to fall within this exception because ‘both society and the scientist have a “legitimate interest” in using the patent disclosure to support the advance of science and technology’.  

- Based on the above, the panel found Canada’s regulatory review exception did not unreasonably prejudice the legitimate interests of the patent owner contrary to Article 30.

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27 Ibid at paras 7.34, 7.36.  
28 Ibid at para 7.45.  
29 Ibid at para 7.55.  
30 Ibid at para 7.57.  
31 Ibid at paras 7.68-7.69, 7.73.  
32 Ibid at para 7.69.
• Freeland should argue that Ipland’s measure does not fall under Article 30 because:

1. Article 31 is the more appropriate exception pertaining to compulsory licences, and Articles 30 and 31 are mutually exclusive;\(^33\)
2. there is not anything specific in the facts to indicate a public health crisis or whether Ipland has experienced difficulties in importing medicines. Without evidence of difficulties with access, Ipland’s measures seem to be more about helping domestic producers than promoting public health;
3. given the holding in *Canada–Pharmaceuticals*, which found that Article 27.1 applies to exceptions granted under Article 30,\(^34\) any exception must be non-discriminatory as to enjoyment of patent rights, whether patented product is locally produced or imported, and Ipland’s measures do not meet this standard; and
4. Ipland’s measures are not limited, unreasonably conflict with a normal exploitation of the patent and unreasonably prejudice the legitimate interests of the patent owner, especially as Ipland’s measures explicitly apply even where the rights holder is making the product available (at any price) in the Iplandian market.

• Ipland should respond that its measures are justified under Article 30 because:

1. the TRIPS Agreement does not explicitly require a compulsory licence issue to be resolved under Article 31;\(^35\)
2. there is nothing under Article 5 of the Paris Convention which requires a public health or any other crisis as a precursor to issuing the compulsory licence;
3. the holding in *Canada–Pharmaceuticals* finding that Article 27.1 applies to exceptions granted under Article 30 is incorrect and should be reversed; and
4. an analysis of the findings and conclusions of *Canada–Pharmaceuticals* regarding the three-step test in Article 30 does not support Freeland’s position.

d) *Article III:4 of the GATT*

• Article III.4 of the GATT reads:

> The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than

\(^33\) On the issue of the mutual exclusivity of Articles 30 and 31, see footnote 7 to Article 31, as well as the Panel Report in *Canada - Pharmaceuticals*, which stated that ‘Articles 30 and 31 are linked together by the opening words of Article 31 which define the scope of Article 31 in terms of exceptions not covered by Article 30’. Ibid at para 7.91.

\(^34\) See ibid at paras 7.88-91.

\(^35\) Freeland may counter that negotiating history shows that the Article 30 exception is designed to be a limited exception while Article 31 is about compulsory licences and government use (the latter point being confirmed by the Doha Declaration). Of course, Ipland could respond by pointing out the place of negotiating history under the Vienna Convention on the Law of Treaties. Ipland could also point out that in the context of the ‘Paragraph 6 of the Doha Declaration’ negotiations several developing countries sought a solution based on Article 30, not Article 31.
that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use. The provisions of this paragraph shall not prevent the application of differential internal transportation charges which are based exclusively on the economic operation of the means of transport and not on the nationality of the product.

- Freeland should claim that the Local Production Encouragement Act discriminates against Freelandian owners of Iplandian patents whose products are imported into, but not locally produced in, Ipland.

- The Local Production Encouragement Act does not explicitly require the use of local content. Rather, it requires that production be moved to Ipland. The issue is whether such a measure could violate Article III:4 (or other non-discrimination provisions).

- Freeland should argue that shifting production from abroad to a domestic location likely means the use of local inputs, as the inputs will now be cheaper (i.e. lower transportation costs). In essence, there is now an implicit incentive to use domestic content in the production.

- On the other hand, Ipland should argue in response that there is no reason to automatically assume that the sourcing of inputs will change following a shift of production (i.e. a company may wish to retain its existing network of suppliers). At the very least, Freeland should assert, one would have to wait to see whether this happened in practice, rather than challenging the law on its face.

e) Effect of the MIFTA

- Article 5(A)(2) of the Paris Convention uses the language ‘failure to work’, as does Article 15.7 of the MIFTA’. Ipland’s Local Production Encouragement Act (2007), however, states ‘locally work the patent’.

- The differences in wording between the various agreements and local legislation are unlikely to assist either Party. However, a convincing argument will need to establish a linkage between the two, and not take for granted that they mean the same thing in the context of TRIPS. While the 1886 Rome Conference of the Paris Convention left the parameters of adequately ‘working’ a patent – then referred to by the official French term ‘exploiter’ – undefined, Bodenhausen states the prevailing views of the 1967 revision to the Paris Convention:

  The member states are free to define what they understand by “failure to work”. Normally, working a patent will be understood to mean working it industrially, namely, by manufacture of the patented product, or industrial application of a patented process. Thus, importation or sale of the patented article, or of the article manufactured by a patented process, will not normally be regarded as “working” the patent.36

• Thus, the term ‘local’ is in traditional analyses of Paris language (and uncontroversially so, although prior to the conclusion of the non-discrimination principle in TRIPS 27.1) read into working requirements (this is understandable given the importance of ‘technology transfer’ as a rationale for working requirements). While the Paris Convention allows state parties to determine the burden that a working requirement places; that view specifically excludes importation as a means of satisfying that burden. In light of this it is very difficult to envisage an argument that could be persuasive in questioning that working requirements are offended by the term ‘local’.

• Without some evidence that the patent is not being worked somewhere (for if it is, the products can be imported), Article 15.7 of the MIFFTA is unlikely to assist Ipland if its arguments based on Article 5 of the Paris Convention are unsuccessful in the claims relating to Article 27 and 28.

• Ipland could attempt to argue that Freeland agreed to local working requires in Article 15 of the MIFFTA (para 7 of the Case). This is unlikely to be successful, as Freeland could concede that it agreed to the MIFFTA provision but it is challenging Ipland’s local law, not MIFFTA.

• If either of the Parties raises this issue, the jurisdictional arguments elaborated upon in Section 5 below, would have to be argued in order to determine whether the MIFFTA is relevant, and if so how should its provision be interpreted in light of the provisions in the TRIPS Agreement (and, correspondingly, the Paris Convention).

37 See Intellectual Property Handbook: Policy, Law and Use (WIPO) at para 5.46 <http://www.wipo.int/export/sites/www/about-ip/en/iprm/pdf/ch5.pdf> “The main argument for enforcing working of the invention in a particular country is the consideration that, in order to promote the industrialization of the country, patents for invention should not be used merely to block the working of the invention in the country or to monopolize importation of the patented article by the patent owner. They should rather be used to introduce the use of the new technology into the country.”; See also, Introduction to Intellectual Property: Theory & Practice (WIPO ed, 1997), 146 - “Reading into” Article 5 the “local” element: “The primary goal of requiring local working of patented inventions is the transfer of technology, the actual working of a patented invention in a given country being seen as the most efficient way of accomplishing such a transfer to that country.”
4 FREELAND’S CLAIMS REGARDING THE TRANSIT RESTRICTIONS/SEIZURES OF HERBAL REMEDIES

a) Claims under the TRIPS Agreement

i) Article 1.1

- The TRIPS Agreement sets out certain minimum standards in the area of intellectual property protection and enforcement. It also offers Members the discretion to provide higher protection and enforcement standards if they so desire. Article Art.1.1, second sentence, encompasses both principles:

  “Members may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement.”

- The limitation is the latter part of the second sentence: ‘provided that such protection does not contravene the provisions of this Agreement’.

- Freeland should argue that Ipland has provided more extensive protection in a manner which contravenes certain provisions of the TRIPS Agreement. That is, Ipland’s measures violate the binding limitations on additional IP protection allowed for in Article 1.1.

- More specifically, Freeland will argue that Ipland’s measures violate several provisions of the TRIPS Agreement relating to IP enforcement (i.e. those provisions which contain binding language setting out general principles of procedural guarantees or limiting enforcement measures or creating trade barriers).

- It is doubtful that Ipland will challenge the claim that Article 1.1 contains a limitation on the possible measures. Rather, Ipland will state that this claim is entirely dependent upon the success of Ipland’s other TRIPS-based claims.

ii) Article 41

- Article 41 reads:

  1. Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.

38 See contra, Paris Convention, Article 19, stating that a subsequent agreement between parties cannot contravene the Convention.

39 For relevant examples, see Articles 41(1)-(4); 42 sentence 2; 43(2); 46 sentence 3; 47; 48(1); 50(3), (4) and (6) of the TRIPS Agreement.
2. Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.

- Freeland should base its claim under Article 41.1 on the fact that Ipland’s measures have created ‘barriers’ (i.e. detentions and seizures) to ‘legitimate trade’ (i.e. herbal remedy products). Ipland should defend its measures by demonstrating that ‘barriers’ are only ‘created’ against infringing goods. The consistency of Ipland’s measures with Article 41.1 is heavily dependent upon the findings on the other TRIPS-based issues subject to this complaint.

- In terms of the patent claim (Claim 3), Freeland should also assert that Ipland’s measure restricting the rights of traders to applying for the release of suspended/detained goods ‘no earlier than 10 days after receiving notification’ constitutes an ‘unreasonable time limit[] or [an] unwarranted delay[]’ under Article 41.2 of the TRIPS Agreement. The argument between the parties should be on whether this 10 day period constitutes an ‘unreasonable’ time delay and/or an unwarranted delay (paragraph 16 of the Case).

- Freeland should make the point that there does not seem to be any justification for the delay. Thus, the suspended goods are kept up to 10 days longer than necessary. Without justification, the time delay must be deemed ‘unreasonable’ and/or the delay must be deemed ‘unwarranted’.

- Ipland should counter that a 10 day delay does not rise to the ‘unreasonable’ standard, and that Article 55 of the TRIPS Agreement, provided that it is applicable (see below), specifically allows a delay of 10 working days of suspension by customs authorities, extendable by another 10 working days. It could further argue that once it receives the application for the release of the goods, it ‘promptly’ notifies the rights holder of the suspension who must act within working 10 days (i.e. commence proceedings and notify customs) or the goods will be released.

iii) Article 51

- Article 51, first sentence, states:

Members must adopt procedures “to enable a right holder, who has valid grounds for suspecting that the importation of counterfeit trademark or pirated copyright goods may take place, to lodge an application in writing with competent authorities, administrative or judicial, for the suspension by the customs authorities of the release into free circulation of such goods.”

- A footnote to Article 51 (Footnote 13) further provides that there is “no obligation to apply such procedures … to goods in transit.”

- Article 51, second sentence, then permits Members to extend border measures to:

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40 Footnote 13 reads: ‘It is understood that there shall be no obligation to apply such procedures to imports of goods put on the market in another country by or with the consent of the right holder, or to goods in transit’.
“goods which involve other infringements of intellectual property rights, provided that the requirements of this Section are met.”

This article, therefore, does not prohibit the possibility of the procedures being applied to goods in transit, but it does subject any TRIPS-plus border enforcement measures (i.e. those involving alleged patent-infringing goods) to the requirements of Articles 52-60.41

Article 52 then requires rights holders initiating the procedures under Article 51 to provide “adequate evidence to satisfy the competent authorities that, under the laws of the country of importation, there is prima facie an infringement of the right holder’s intellectual property right” and to supply a sufficiently detailed description of the goods to make them readily recognizable by the customs authorities. Moreover, a footnote to Article 51 (Footnote 14) refers to the “law of the country of importation” to determine goods as containing counterfeit trademarks or copyright piracy.

The important question thus becomes whether Freeland or Ipland is the “country of importation”, for the purpose of determining consistency with Article 52 (and by extension Article 51). It seems clear that if the country of final destination (i.e. Freeland) is deemed to be the country of final importation then Ipland’s measure is inconsistent with Article 52 of TRIPS. If, however, the country of transit (i.e. Ipland) is deemed to be the country of importation, then Ipland’s measure is consistent with Article 52 of TRIPS.

Unfortunately, the term “country of final importation” is not defined anywhere in the TRIPS Agreement, nor is the term defined in GATT Article V.

Freeland should argue that in order to be consistent with Article 51 (Footnote 13), Ipland must demonstrate a prima facie an infringement of the right holder’s intellectual property right in the country of importation. Support for this interpretation of Articles 51 and 52 is based not only on the territoriality principle of IPRs (based on Art. 4 of the Paris Convention) but also on a contextually based reading of the provisions (including Footnote 13, which distinguishes between imports and goods in transit (implying that the terms have different meanings) and Footnote 14 to Article 51). As Ipland is using its own laws to determine the basis of the seizures, its measures are inconsistent with Article 51.

Ipland should respond that its measures are consistent with Articles 51 and 52, and more specifically that the term ‘country of importation’ can be read so as to include the transiting country. Moreover, while certain provisions in the TRIPS Agreement support Freeland’s argument that imports and goods in transit are treated differently (i.e. Footnote 14 of Article 52, Article 44 and Article 51.1), other provisions in which there is no differentiation (i.e. Articles 28(a) and 36).

Ultimately, the Parties should argue over the interpretation of the phrase ‘country of importation’ by reference to Article 31 of the VCLT (see previous discussion in Section 1(a), ordinary meaning, context, object and purpose). Importantly, while

Articles 7 and 8 may still be relevant as context, this is not a dispute about pharmaceuticals and access to essential medicines. The Doha Declaration on TRIPS and Public Health may still be relevant, but the link is fairly unclear unless Freeland can demonstrate a clear link to health. This may be difficult given that the Case facts indicate only that preliminary research has linked ‘Sambati’ with treating the T1R1 influenza virus (paragraph 10 of the facts).

iv) Article 53

- Article 53 of the TRIPS Agreements reads:

  1. The competent authorities shall have the authority to require an applicant to provide a security or equivalent assurance sufficient to protect the defendant and the competent authorities and to prevent abuse. Such security or equivalent assurance shall not unreasonably deter recourse to these procedures.

  2. Where pursuant to an application under this Section the release of goods involving industrial designs, patents, layout-designs or undisclosed information into free circulation has been suspended by customs authorities on the basis of a decision other than by a judicial or other independent authority, and the period provided for in Article 55 has expired without the granting of provisional relief by the duly empowered authority, and provided that all other conditions for importation have been complied with, the owner, importer, or consignee of such goods shall be entitled to their release on the posting of a security in an amount sufficient to protect the right holder for any infringement. Payment of such security shall not prejudice any other remedy available to the right holder, it being understood that the security shall be released if the right holder fails to pursue the right of action within a reasonable period of time.

- Article 55 of the TRIPS Agreements reads:

  If, within a period not exceeding 10 working days after the applicant has been served notice of the suspension, the customs authorities have not been informed that proceedings leading to a decision on the merits of the case have been initiated by a party other than the defendant, or that the duly empowered authority has taken provisional measures prolonging the suspension of the release of the goods, the goods shall be released, provided that all other conditions for importation or exportation have been complied with; in appropriate cases, this time-limit may be extended by another 10 working days. If proceedings leading to a decision on the merits of the case have been initiated, a review, including a right to be heard, shall take place upon request of the defendant with a view to deciding, within a reasonable period, whether these measures shall be modified, revoked or confirmed. Notwithstanding the above, where the suspension of the release of goods is carried out or continued in accordance with a provisional judicial measure, the provisions of paragraph 6 of Article 50 shall apply.
Freeland should argue that Article 53.1 requires customs officials to demand security or equivalent assurance in order to safeguard and ‘protect’ the interests of importers and other traders and to ‘prevent abuse’. Freeland should question why the addition of the phrase ‘...sufficient to protect the defendant and the competent authorities and to prevent abuse’ if the security or equivalent assurance were merely optional.

Ipland will counter that Article 53.1 merely grants the authority to Members to require competent authorities to have the authority to require an applicant to provide a security, but does not mandate such a requirement (‘shall have the authority to require’). For some time, Ipland did require an applicant to provide a security (US$25,000) but this proved to be ‘unreasonably’ deterring recourse to the procedures, so Ipland amended its laws in an effort to encourage enforcement of IP violations.

Freeland could potentially also argue (for Claim 3 relating to patents an ex officio suspension of goods) that Ipland’s laws are not consistent with Article 53.2 in that Ipland does not provide for the ‘release [of the goods] on the posting of a security in the amount sufficient to protect the right holder for any infringement’ following the expiration of the period provided for in Article 55.

Ipland should counter that its laws are fully consistent with Article 55 and that there is nothing in the facts to indicate that it does not release the goods in accordance with Articles 55 or 53.2.

v) Article 58

Article 58 of the TRIPS Agreement states:

Where Members require competent authorities to act upon their own initiative and to suspend the release of goods in respect of which they have acquired prima facie evidence that an intellectual property right is being infringed:

(a) the competent authorities may at any time seek from the right holder any information that may assist them to exercise these powers;
(b) the importer and the right holder shall be promptly notified of the suspension. Where the importer has lodged an appeal against the suspension with the competent authorities, the suspension shall be subject to the conditions, mutatis mutandis, set out at Article 55; and
(c) Members shall only exempt both public authorities and officials from liability to appropriate remedial measures where actions are taken or intended in good faith.

Article 58 is only applicable to Claim 3. Freeland should argue that Ipland’s law is inconsistent with Article 58 of the TRIPS Agreement as it does not require its customs officials to acquire prima facie evidence that an IPR is being infringed in the ‘country of importation’ – that is, according to Freeland, the country of final destination.
• Ipland should defend its measure not only by claiming (once again) that the ‘country of importation’ should be deemed to be the country of transit but also by arguing that Article 58 does not even use such terms. Article 58 merely requires customs officers to acquire ‘prima facie evidence that an intellectual property right is being infringed’, and does not state or even alude to the jurisdiction of the infringement.

• Freeland might also argue that Ipland’s law does not contain any obligation to ‘promptly notify’ the rights holder. The Case does not indicate whether notification was prompt or not, which makes arguing this point difficult.

b) Claim under the GATT

a) Article V

• The panel in EC–Trademarks and GIs found that when there are claims under two WTO agreements, there is ‘no hierarchy between these two agreements, which appear in separate annexes to the WTO Agreement’.\(^\text{42}\) The panel concluded, without explaining or justifying, that ‘[o]ne logical approach would be to begin in each instance with the TRIPS Agreement’.\(^\text{43}\)

• The relevant portions of Articles V state:

1. Goods (including baggage), and also vessels and other means of transport, shall be deemed to be in transit across the territory of a Member when the passage across such territory, with or without transshipment, warehousing, breaking bulk, or change in the mode of transport, is only a portion of a complete journey beginning and terminating beyond the frontier of the contracting party across whose territory the traffic passes. Traffic of this nature is termed in this article "traffic in transit."

2. There shall be freedom of transit through the territory of each Member, via the routes most convenient for international transit, for traffic in transit to or from the territory of other Members. No distinction shall be made which is based on the flag of vessels, the place of origin, departure, entry, exit or destination, or on any circumstances relating to the ownership of goods, of vessels or of other means of transport.

3. Any contracting party may require that traffic in transit through its territory be entered at the proper custom house, but, except in cases of failure to comply with applicable customs laws and regulations, such traffic coming from or going to the territory of other contracting parties shall not be subject to any unnecessary delays or restrictions and shall be exempt from customs duties and from all transit duties or other charges imposed in respect of transit, except charges for transportation or those commensurate with administrative expenses entailed by transit or with the cost of services rendered.

\(^{42}\) Report of the Panel, European Communities – Protection of trademarks and geographical indications for agricultural products and foodstuffs, WT/DS290/R, 15 March 20, para 7.87.

\(^{43}\) Ibid.
The panel in *Colombia–Ports of Entry* made the following interpretations:

- Article V:1 provides context to and informs the scope of the substantive obligations found in Article V:2.\(^{44}\)
- ‘Freedom of transit’, when applied to Article V:2, ‘must …. be extended to all traffic in transit when the goods’ passage across the territory of a Member is only a portion of a complete journey beginning and terminating beyond the frontier of the Member across whose territory the traffic passes.
- Freedom of transit must additionally be guaranteed with or without transshipment, warehousing, breaking bulk, or change in the mode of transport.’
- Article V:2, first sentence, “requires extending unrestricted access via the most convenient routes for the passage of goods in international transit whether or not the goods have been trans-shipped, warehoused, breakbulk, or have changed modes of transport.” Therefore, goods in international transit from a Member must be allowed entry whenever destined for the territory of a third country.\(^ {45}\)
- Transit must be provided for the ‘most convenient’ routes for transport through the territory.\(^ {46}\)
- Members cannot ‘make distinctions between goods which are ‘traffic in transit’ based on the flag of vessels; the place of origin, departure, entry, exit or destination of the vessel; or on any circumstances relating to the ownership of goods, of vessels or of other means of transport.’\(^ {47}\) Therefore, Article V:2, second sentence, requires that ‘goods from all Members must be ensured an identical level of access and equal conditions when proceeding in international transit.’

Freeland will argue that Ipland’s measures relating to the transit restrictions and seizures violate several sub-parts of GATT Article V:

- Article V:2 – ‘freedom of transit’ – There is no freedom of transit if Ipland is seizing the products as they enter Iplandian territory.
- Article V:3 – ‘shall not be subject to any unnecessary delays or restrictions’ – seizing the products is an unnecessary delay or restriction.
- Article V:5 – most favoured nation – perhaps an argument could be made that Freeland’s products are being singled out and treated differently than products from other nations. Paragraph 16 of the Case indicates that

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\(^{44}\) The panel found that the definition of ‘traffic in transit’ provided in Article V:1 ‘seems sufficiently clear on its face.’ Report of the Panel, *Colombia – Indicative prices and restrictions on ports of entry*, para 7.396.

\(^{45}\) Ibid at para 7.401.

\(^{46}\) Ibid.

\(^{47}\) Ibid at para 4.402.
Iplandian authorities strengthened the law and directed customs officials to fully enforce existing law after viewing statistical information showing the majority of pirated and counterfeit foods transiting through Ipland originate in Midonia and are destined for Freeland.

- Ipland should argue that while the paragraphs 2 and 3 of Article V appear to prohibit interference with goods in transit, Articles V.3 potentially and significantly alters the situation. While recognizing that goods in transit shall ‘not be subject to any unnecessary delays or restrictions and shall be exempt from customs duties’, the paragraph also contains an important provision: ‘except in cases of failure to comply with applicable customs laws and regulations’.

- In defending its measures, Ipland should argue that it is acting under the authority provided for in Article V:3 to apply its ‘customs laws and regulations’. It is clear that all goods transiting through a territory may be subjected to some delays in order to, inter alia, determine whether the goods infringe any intellectual property rights. Article 55 of the TRIPS Agreement requires that customs officials release suspended goods if, within 10 working days after the applicant has been served notice of the suspension, the applicant fails to notify customs that proceedings leading to a decision on the merits of the case have been initiated by a party other than the defendant, or that the duly empowered authority has taken provisional measures prolonging the suspension of the release of the goods (provided that all other conditions for importation or exportation have been complied with).

- The more interesting argument is that while the paragraph prohibits ‘unnecessary delays or restrictions’, the drafting appears to limit the prohibition (and thus allow such delays and restrictions) when customs laws and regulations are not complied with. This limitation, it could be argued, confines the applicability of the ‘necessity test’ to situations where customs laws and regulations were fully complied with but nevertheless the goods in transit were subjected to ‘unnecessary delays or restrictions’.

- Ipland may also attempt to more broadly argue that the Article V right of freedom of transit is limited to ‘legally traded’ goods. In other words, a Member does not have to provide freedom of transit to ‘illegal’ goods. In this Case, Ipland could argue that the herbal remedy Revitall was produced in Midonia solely for the Midonian market, but destined to be parallel imported through Ipland and into Freeland (i.e. a gray market good) (see paragraph 14 of the Case).

- As Ipland prohibits parallel imported goods (see paragraph 15 of the Case), it could argue that the goods were not ‘legally traded’. Such an interpretation, however, is perhaps more appropriate under Article 2.2 of the MIFFTA, which explicitly limits freedom of transit to ‘legally traded goods’ (see paragraph 3 of the Case). Article V of the GATT does not contain such language, thus Ipland will only prevail under this argument if it can convince the panel that the more restrictive term of the MIFFTA should be considered (see Section 5, below, for such international law based arguments and Freeland’s counter-arguments).

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48 A counter could be that Ipland’s law is an intellectual property law, not a customs law, and thus outside the scope of Article V. This argument, however, is not likely to be sustained.
Should Ipland’s justification based on Article V.3 not be accepted, Ipland should argue that its measures are justified by the affirmative defence of Article XX(d). Article XX provides, in relevant part:

*The Chapeau* - Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures:

(d) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to customs enforcement, the enforcement of monopolies operated under paragraph 4 of Article II and Article XVII, the protection of patents, trademarks and copyrights, and the prevention of deceptive practices.49

WTO jurisprudence clearly establishes that an inconsistency with a covered agreement can only be justified when the requirements of both the specific Article XX exception and the chapeau (introductory clause) are met.50 At first instance, the respondent must identify the relevant exception and demonstrate that its measures fit within the scope of the exception.51 Ipland must therefore demonstrate both that the measure is:

1. designed to ‘secure compliance’ with laws or regulations that are not themselves inconsistent with some provision of the *GATT 1994*; and is
2. ‘necessary’ to secure such compliance.

To satisfy the first condition, Ipland must identify the laws or regulations for which it seeks to secure compliance, establish that those laws or regulations are not themselves WTO-inconsistent, and demonstrate that the particular measure at issue is itself designed to secure compliance with the relevant laws or regulations.52

If Ipland’s measure is found to be inconsistent with the TRIPS Agreement then almost certainly the invocation of the Article XX(d) would fall at the first hurdle. If, on the other hand, Ipland succeeds in demonstrating that its measures are designed to secure compliance with the TRIPS Agreement, it would still have to demonstrate that such measures were ‘necessary’. If this can be accomplished, it seems clear that any law or regulation which is necessary for the implementation of the TRIPS Agreement would not be regarded as being inconsistent with GATT (within the meaning of article XX(d)). To conclude otherwise would result in a measure necessary to implement one agreement actually would violate another agreement. This would counter the rule of effective treaty interpretation, which

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49 The section, it should be noted, specifically mentions patents and trademarks.
requires a harmonious interpretation of the WTO Agreement (including annexes). Moreover, the presumption against conflict implies a preference for an interpretation that avoids such conflict.

- Ipland will likely argue that the importance of intellectual property rights to the global economy and the need to protect communities from substandard and counterfeit products (both separately and cumulatively) provide a sound basis on which to determine that certain enhanced border measures are ‘necessary’. Jurisprudence on the ‘necessity test’ is well developed. The Appellate Body in the Korea – Beef established the ‘necessity test’ for Article XX(d) (the standard test was later applied to other provisions of Article XX).53

  ➢ In that case, the Appellate Body held that ‘necessary’ does not necessarily mean ‘indispensable’,54 but instead certain factors should be ‘weighed and balanced’ in order to determine if a measure is ‘necessary’. The relevant factors include:

  1. importance of the interests or values involved;
  2. contribution of the measure to the goal;
  3. trade-restrictiveness; and
  4. whether there are any less trade restrictive alternative measures available.

  ➢ The parties should discuss these points. Ipland may have a difficult time making its case – the measures are fairly trade-restrictive and there likely are other alternatives.

  ➢ Thus, in order to resolve whether a measure is ‘necessary’, panels and the Appellate Body should weigh and balance a series of factors to determine whether a WTO-consistent alternative measure or even a less WTO-inconsistent measure exists which the Member concerned could ‘reasonably be expected to employ’.55

- If Ipland can demonstrate that its measures are both designed to ‘secure compliance’ with laws or regulations that are not themselves inconsistent with any provision of the GATT and ‘necessary’ to secure such compliance, it still must conform to the requirements of the chapeau – in other words, Ipland must demonstrate that its measures are not applied in a manner which constitutes arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade. Is the action in this dispute justifiable and non-arbitrary – this may depend on things like the seriousness of the problem and the possible alternatives (both of which should be raised and argued by the parties).

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54 Report of the Appellate Body, Korea – Various Measures on Beef, para 161 (“‘necessary’ measure is, in this continuum, located significantly closer to the pole of ‘indispensable’ than to the opposite pole of simply ‘making a contribution to’”)
55 Ibid para 166.
5. IPLAND’S JURISDICTIONAL DEFENCE

• In response to Freeland’s complaint, Ipland should challenge the jurisdiction of the WTO panel and contend that the panel has no jurisdiction to adjudicate Freeland’s WTO complaint as a result of Article 23.9 of the MIFTA.

• There is limited jurisprudence on this issue, but both Parties should be familiar with the Mexico – Taxes on Soft Drinks dispute.

  ➢ The panel in Mexico – Taxes on Soft Drinks primarily relied upon DSU Article 11, and also referred to Articles 3.2, 19.2 and 23 to refuse Mexico’s request for the panel to decline jurisdiction in favour of an Arbitral Panel under Chapter Twenty of the North American Free Trade Agreement (NAFTA), stating that it had no discretion under the DSU to decline jurisdiction in the case.  

  ➢ The Appellate Body upheld the panel’s finding, basing its decision on DSU Articles 3.2, 3.3, 7.1, 7.2, 11, 19.2 and 23.  

    ▪ Ultimately, the Appellate Body stated: ‘we see no basis in the DSU for panels and the Appellate Body to adjudicate non-WTO disputes’.  

    ▪ Both the panel and the Appellate Body, however, went out of their way to stress that the decisions were not deciding ‘whether there may be other cases where a panel's jurisdiction might be legally constrained’, or ‘whether there may be other circumstances in which legal impediments could exist that would preclude a panel from ruling on the merits of the claims that are before it’.

    ▪ The panel did not interpret the NAFTA to preclude a party to that Agreement from bringing a WTO dispute. Quite the contrary, the panel stated: ‘there was nothing in the NAFTA that would prevent the United States from bringing the present case to the WTO dispute settlement system’, a point the Appellate Body stressed in its Report.

• In this Case, Ipland is claiming that the panel lacks jurisdiction altogether (para 17 of the Case). Given Mexico – Taxes on Soft Drinks, this argument will be difficult to sustain. The Parties should be aware and understand the differences in the facts of and situation in Mexico – Taxes on Soft Drinks and the present Case, and also

56 Report of the Panel, Mexico – Taxes on Soft Drinks, paras 7.6-7.9, 7.18. The panel stated: ‘A panel has … to address the claims on which a finding is necessary to enable the DSB to make sufficiently precise recommendations or rulings to the parties…A panel would seem therefore not to be in a position to choose freely whether or not to exercise its jurisdiction.’
58 Ibid at para 56.
62 Report of the Appellate Body, Mexico – Taxes on Soft Drinks, para 44/
understand that Ipland will not directly have to argue that Mexico – Taxes on Soft Drinks was incorrectly decided.

- On the other hand, Ipland could make an argument based on some plausible international law arguments (based on the VCLT) as to how conflicting treaties should be interpreted together.

- Moreover, Ipland could construct an argument based on the fact that WTO panels/Appellate Body interpret Members’ domestic legislation, and that, in the words of the Appellate Body in US–Gasoline, the ‘the General Agreement is not to be read in clinical isolation from public international law.’

- Freeland should first counter that the choice of forum provisions in FTAs are irrelevant, as WTO panels should only adhere to DSU rules which regulate the types of complaints which can be brought to a panel. Put simply, a WTO complaint can be filed and a panel can hear the dispute, make findings and issue its report, regardless of whether doing so would violate an FTA. The violation of the FTA is a problem for the FTA, not the WTO.

- It is unlikely that either party will argue that there is a conflict between the DSU and Article 23.9 of the MIFFTA. Ipland could maintain that no conflict arises because it is possible to comply with both the DSU and FTA at the same time, especially given the limited scope of Article 23.9.2 of the MIFFTA. In order for Ipland’s position to prevail, it must demonstrate why the MIFFTA is relevant to the interpretation of the DSU. Here, its argument should be based on Article 31(3)(c) of the VCLT (‘any relevant rules of international law applicable in the relations between the parties.’)

- Freeland likely will agree that no conflict arises but will dispute the relevance of the MIFFTA in the interpretation of the DSU and contest whether the MIFFTA falls within the scope of Article 31(3)(c) of the VCLT as not all WTO Members are ‘parties’. 65

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‘...Article 31(3)(c) indicates that it is only those rules of international law which are ‘applicable in the relations between the parties’ that are to be taken into account in interpreting a treaty. This limitation gives rise to the question of what is meant by the term ‘the parties’. In considering this issue, we note that Article 31(3)(c) does not refer to ‘one or more parties’. Nor does it refer to ‘the parties to a dispute’. We further note that Article 2.1(g) of the Vienna Convention defines the meaning of the term ‘party’ for the purposes of the Vienna Convention. Thus, ‘party’ means ‘a State which has consented to be bound by the treaty and for which the treaty is in force’. It may be inferred from these elements that the rules of international law applicable in the relations between ‘the parties’ are the rules of international law applicable in the relations between the States which have consented to be bound by the treaty which is being interpreted, and for which that treaty is in force. This understanding of the term ‘the parties’ leads logically to the view that the rules of international law to be taken into account in interpreting the WTO agreements at issue in this dispute are those which are applicable in the relations between the WTO Members.’
• In the alternative, Freeland could argue that a conflict does arise between the DSU and Article 23 of the MIFFTA and that the conflict should be resolved in favour of the DSU by arguing, inter alia, that Articles 3.2 and 19.2 of the DSU operate as a ‘conflicts rule’ in favour of the WTO agreements.\footnote{See Lorand Bartels, ‘Applicable Law in WTO Dispute Settlement Proceedings’ (2001) 35 Journal of World Trade 499, 507.}

• Ipland would, no doubt, respond with arguments as to why the MIFFTA should prevail. Plausible arguments could be that the MIFFTA amounts to a successive agreement between the parties (see Article 30 of the VCLT) or that the MIFFTA modified the WTO agreements as between Freeland and Ipland (and Midonia) in full accordance with Article 41 of the VCLT.

• Freeland would contest the validity of such a modification under Article 41, and may find support from \textit{EC–Biotech} and \textit{EC–Chicken Cuts}.

• In the alternative, Freeland could argue against the substantive application of Article 23.9 of the MIFFTA (i.e. that the choice of forum provision does not apply, as the Ipland measure does not is not for the protection of human health, but rather to give an advantage to domestic producers).

• Freeland might attempt to argue that provisions in the MIFFTA cannot be considered as the Agreement is inconsistent with GATT Article XXIV. This ‘nuclear option’ argument is unlikely to be made, but could be interesting. The facts indicate that the MIFFTA covers only 72 percent of tariff lines and 87 percent of trade by volume (para 2 of the Case). Although as this aspect of the current dispute concerns intellectual property rights, not goods, the relevancy of the substantive requirements of Article XXIV of GATT will be questioned.
6. FURTHER READINGS

a) Treaties

• Marrakesh Agreement Establishing the WTO

• General Agreement on Tariffs and Trade (GATT) 1994, Articles III:4 and V

• WTO, Agreement on Trade-Related Aspects of Intellectual Property Rights, Articles 1, 27, 28, 41, 51, 53 and 58

• WTO, Understanding on Rules and Procedures Governing the Settlement of Disputes

• 1967 Paris Convention for the Protection of Industrial Property, 21 U.S.T 1583


b) Indicative WTO Cases

*The commonly referred name of each WTO Case is listed in (bold italics).

• Canada – Patent Protection of Pharmaceutical Products (*Pharmaceutical Patents*) (WT/DS114)

• China – Measures Affecting the Protection and Enforcement of Intellectual Property Rights (*IP Rights*) (WT/DS362)

• EC – Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs (*Trademarks/GIs*) (WT/DS174 and WT/DS 290)

• Colombia – Indicative Prices and Restrictions on Ports of Entry (*Ports of Entry*) (WT/DS366)

• Turkey – Restrictions on Imports of Textile and Clothing Products (*Textiles*) (WT/DS34)

• Mexico – (*Soft Drinks and Other Beverages*) (WT/DS308)

• EC – Regime for the Importation, Sale and Distribution of Bananas (*Bananas*) (WT/DS27)

• Indonesia – Certain Measures Affecting the Automobile Industry (*Automobiles*) (WT/DS54)

c) Selected References on WTO Law

• G.H.C Bodenhausen, Guide to the Application of the Paris Convention for the Protection of Industrial Property (1968)


• Carlos M. Correa, ‘Pro-competitive Measures under TRIPS to Promote Technology Diffusion in Developing Countries’ in Peter Drahos and Ruth Mayne (eds) Global Intellectual Property Rights (2002)


• Introduction to Intellectual Property: Theory & Practice (WIPO ed, 1997)


• Gabrielle Marceau, ‘Conflict of Norms and Conflicts of Jurisdictions, The Relationship between the WTO Agreement and MEAs and other Treaties’ (2001) 35 Journal of World Trade 1081
• Andrew Mitchell and Tania Voon, ‘PTAs and public international law’ in Simon Lester and Bryan Mercurio (ed), Bilateral and Regional Trade Agreements: Commentary and Analysis (2009) Cambridge University Press


• Bryan Mercurio and Mitali Tyagi, ‘Treaty Interpretation in WTO Dispute Settlement: The Outstanding Question of the Legality of Local Working Requirements’ (2010) 19(2) Minnesota Journal of International Law __ (please contact author for the draft article)
