The European Law Students' Association

Team: 016 C

ELSA MOOT COURT COMPETITION ON WTO LAW

2009-2010

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

FREELAND

(COMPLAINANT)

versus

IPLAND

(RESPONDENT)

Submission for Complainant

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I. Treaties

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(2) *Charter of the United Nations* of June 26, 1945, 15 U.N.C.I.O. (1945) 335.

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List of Abbreviations

AB	Appellate Body
ABR	Appellate Body Report
Art./Arts.	Article/Articles
CFPR	Cold and Flu Prevention and Remedy
Doha Declaration	Doha Declaration on the TRIPS Agreement and Public Health
Doc.	document
DSB	Dispute Settlement Body
DSU	Dispute Settlement Understanding
EC	European Communities
ed./eds.	Editor/s
e.g.	*exempli gratia*, for example
et al.	*et alia*, and others
GATT	General Agreement on Tariffs and Trade
GI	Geographical Indication
GPR	GATT 1947 Panel Report
HRPA	Herbal Remedy Protection Act
IHB	*Ipland* Herb Board
IPR/s	Intellectual Property Right/s
LPEA	Local Production Encouragement Act
MIFFTA	*Midonia-Ipland-Freeland* Free Trade Agreement
Paris Convention	Paris Convention for the Protection of Industrial Property
PR	Panel Report
PREA	Protection of Rights Encouragement Act
RTA/RTAs	Regional Trade Agreement/Regional Trade Agreements
StICJ	Statute of the International Court of Justice
TM	Trademark
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNCTAD-ICTSD	United Nations Conference on Trade and Development and the International Centre for Trade and Sustainable Development
VCLT	Vienna Convention on the Law of Treaties
WTO	World Trade Organization
WTOA	Marrakesh Agreement Establishing the WTO

Statement of Facts

Freeland and *Midonia* are developing countries, whereas *Ipland* is a developed country. All three countries are Members of the WTO. In March 2003, the countries entered into the *Midonia-Ipland-Freeland* Free Trade Agreement (MIFFTA). The vast majority of the *Freelandian* and *Midonian* border is covered with impenetrable jungle. The only possible trade corridor runs through the narrow strip of *Ipland*.

In 2007, *Ipland* passed the LPEA to further the goal of local production and to establish a manufacturing capacity. Para. 795 LPEA permits *Ipland* to grant CL in case of failure to locally work the patent. A footnote to para. 795 states that products merely imported into *Ipland* do not constitute a patent being locally worked. The *Iplandian* Government also offers land at less than fair market value, tax breaks and start-up funding to pursue the goal. In 2007, *Ipland* passed the HRPA which forces the private growers, traders and dealers to enter into a licensing system with the relevant government agency, the IHB. This agency issues Certificates of Origin to all authorised production of indigenous herbs.

Ipland strengthened the Customs Laws which now permit them to investigate and acquire *prima facie* evidence that an IPR is infringed. *Ipland* passed the PREA and entirely removed the security required for suspension of goods. According to the PREA, in case of acting *ex officio*, traders are forced to wait 10 days until they can file an application for the release of the suspended goods. Thereafter, the rights holder has 10 days to notify Customs that it has commenced proceedings.

The herb “sambati”, which has been known for centuries, can be found in the mountainous jungle terrain common to all MIFFTA members. “Sambati” has anti-viral properties to treat the T1R1 influenza virus. This virus could potentially infect the world’s population and could also potentially mutate. However, T1R1 has thus far been fairly mild. The IHB registered the word “Sambati” as a trademark and a GI in *Ipland* and other countries, but *Freeland* and *Midonia* rejected the registration. The dispute whether “sambati” is a GI or a generic term could not be resolved. The IHB filed and received a process patent for separating and extracting the medicinally-relevant portion of “sambati”, but it was not received in either Freeland or in Midonia.

Ipland’s Customs officials, acting on an application filed by the IHB, confiscated in transit a shipment of a common herbal remedy named “Revitall”. The seized products contained “sambati”, sourced from the Midonian mountainous jungle terrain. Separately, *Ipland’s* Customs officials seized several shipments of a particular herbal remedy, CFPR. Both seized products were manufactured in Midonia and destined to be imported into Freeland.

Summary of Arguments

Jurisdiction:

- The WTO Panel has jurisdiction because Art. 23.1 DSU provides the Panel with exclusive and mandatory jurisdiction over covered agreements.
- MIFFTA is incompatible with WTO Law as it does not meet the requirements of Art. XXIV:8(b) GATT. Even if MIFFTA fulfils the requirements set out in Art. XXIV GATT, exclusive forum clauses, such as Art. 23.9.2 MIFFTA, are not binding on WTO panels. Should Art. 23.9.2 MIFFTA be applicable its requirements are not fulfilled.
- The Panel does not enjoy any discretion as to the exercise of its jurisdiction. Not ruling on the case would diminish the rights of the complaining member under Art. 3.2, 19.2 DSU and other WTO covered agreements.

Claim I:

- The LPEA violates Art. 27.1(2) TRIPS because it discriminates *de jure*, since the express wording of the LPEA discriminates against imported products. Even if it does not discriminate *de jure*, it does *de facto* as to whether products are imported or locally produced and as to the field of technology. A *de facto* discrimination arises because the LPEA has a discriminatory effect and discriminatory purpose.
- The LPEA violates Art. 28.1 TRIPS because the CL permits third parties to use the patent without the owners' consent. The LPEA is not justified under Art. 30 because the LPEA is not limited, unreasonably conflicts with the normal exploitation and unreasonably prejudices the legitimate interests. Furthermore it is not justified under Art. 31(b) TRIPS since a national emergency does not exist.
- The LPEA violates Art. III:4 GATT. Imported and domestic products are like products because they have the same nature, quality and end-uses. The imported products are treated less favourably since they are subject to detrimental conditions of competition in comparison to domestic products. This is not justified under Art. XX GATT. The LPEA was not adopted to protect human life and health according to Art. XX(b) GATT and it contravenes the *chapeau* of Art. XX.

Claim II:

- *Ipland's* transit restrictions and the seizure of "Revitall" violate Art. 1.1 TRIPS because *Ipland's* more extensive protection contravenes TRIPS provisions.
- The border measures violate Art. 41.1 TRIPS since *Ipland's* enforcement procedures create trade barriers to legitimate trade and do not provide safeguards against abuse.

- *Ipland's* border measures violate Art. 41.2 TRIPS because the enforcement procedures create unwarranted delays. The case in the *Iplandian* Court is pending and not expected to be completed within the next year.
- The transit restrictions and the seizure violate Art. 53.1 TRIPS because *Ipland* does not oblige the Customs Authorities to require a security to protect the trader.
- The border measures violate Art. 51 TRIPS because *Ipland* is not the country of importation. Footnote 13 of Art. 51 TRIPS shall not be extended to these goods because there is no danger of free circulation of "Revitall". An extension of footnote 13 to Art. 51 TRIPS to goods in transit contradicts Art. V GATT. Furthermore, a TM and GI for "Sambati" do not exist.
- The border measures violate Art. V GATT because the freedom of transit via the routes most convenient is not guaranteed. "Revitall" is a legally traded good in transit. The restrictions are not justified under Art. XX GATT. They are not necessary to secure compliance with MIFFTA according to Art. XX(d) GATT and contravene the *chapeau.*

Claim III:

- The transit restrictions and the seizure of CFPR violate Art. 1.1 TRIPS because the more extensive protection contravenes TRIPS.
- The border measures violate Art. 41.1 TRIPS because the enforcement procedures create trade barriers to legitimate trade. The CFPR was only seized for reportedly containing unlicensed "Sambati" and therefore there is no *prima facie* evidence of infringement. The border measures violate Art. 41.2 TRIPS because the enforcement procedures create unwarranted delays. According to the PREA, traders have to wait at least 10 days to file an application for the release of the goods when the Customs Authorities act *ex officio*.
- The border measures violate Art. 53 TRIPS because there is no security or equivalent assurance to protect the defendant and the right holder.
- The border measures violate Art. 58 TRIPS because the customs authorities did not act on *prima facie* evidence. Furthermore, the right holder will not be promptly notified of the suspension of the goods.
- The transit restrictions and the seizure violate Art. 51 TRIPS because *Ipland* is not the country of importation and its law is not applicable. The CFPR is a good in transit and thus footnote 13 of Art. 51 TRIPS is not applicable. The process patent for the extraction process of "sambati" does not exist. The border measures violate Art. V GATT because freedom of transit is not guaranteed. This measure is not justified under Art. XX GATT.

Identification of the Measures at Issue

1. **Measure 1:** The LPEA, which permits CL on the basis of failure to locally work the patent.
2. **Measure 2:** The transit restrictions and the seizure of the herbal remedy "Revitall" on the basis of TM and GI infringement under PREA and Customs Laws.
3. **Measure 3:** The transit restrictions and the seizure of the herbal remedy CFPR on the basis of patent infringement under PREA and Customs Laws.

Legal Pleadings

I. The WTO Panel has jurisdiction

The Panel has jurisdiction, because Art. 23 DSU provides exclusive and mandatory jurisdiction[1] over covered agreements. *Freeland* claims a violation of TRIPS and GATT provisions. TRIPS and GATT are covered agreements according to Appendix 1(B) Annex 1A and 1C DSU.

Ipland cannot invoke Art. 23.9.2. MIFFTA as a legal impediment to the Panel's jurisdiction because MIFFTA does not comply with WTO law and therefore inapplicable. According to Art. XXIV:8(b) GATT free trade agreements must cover substantially all trade, whereas MIFFTA covers merely 72 percent of the tariff lines. The AB in *Turkey – Textiles* held that free trade agreements must cover at least "considerably more than merely some of the trade".[2] MIFFTA does not fulfil the requirement. In addition, CRTA has not issued a report regarding the consistency of MIFFTA with Art. XXIV GATT and V GATS. *Freeland*, although a party to MIFFTA, is not estopped from claiming MIFFTA's WTO inconsistency. All MIFFTA countries have confirmed their rights and obligation with respect to each other under WTO agreements as provided in Art. 1.2 MIFFTA. In addition, this WTO Panel would be prevented from fulfilling its function and obligations according to Art. 23 DSU if estoppel were applied.

Even if MIFFTA fulfils the requirements set out in Art. XXIV GATT, exclusive forum clauses, such as Art. 23.9.2 MIFFTA, are not binding on WTO panels. Art. 3.2 DSU excludes the application of non-WTO law which is only applicable to some of the WTO members. The relevance of such clauses has never been recognized in WTO jurisprudence.

Should the Panel decide that Art. 23.9.2 MIFFTA applies, it is submitted that the requirements of this provision are not fulfilled. Art. 23.9.2 MIFFTA limits the application of

[1] PR, *US - Section 301*, [7.43]; Hillmann (2009), 3; Kwak/Marceau (2006), 466; Marceau (2001), 1111; Hassanien (2008), 6; Pauwelyn (2001), 16; Matsushita/Schoenbaum/Mavroidis (2006), 138.
[2] ABR, *Turkey – Textiles*, [48].

exclusive jurisdiction to measures that have been adopted to protect human, animal, plant life or health. *Ipland's* measures were adopted to encourage the local production which does not fall under one of the measures.

In addition, *Ipland* cannot argue that *Freeland* is prevented from instituting WTO proceedings based on the doctrines of abuse of rights or estoppel. On the one hand, "it is far from clear that the estoppel principle applies in the context of WTO dispute settlement"[3]. On the other hand, by bringing the dispute to the WTO Panel, *Freeland* cannot be considered to have abused its right. Members have the right, especially with regard to the overarching purpose of the WTO dispute settlement system, to resolve WTO trade disputes.[4]

This Panel does not enjoy any discretion as to the exercise of its jurisdiction. As explicitly held by the AB in *Mexico – Soft Drinks*[5], if a panel would not rule on the case, it would diminish the rights of the complaining Member under Art. 3.2, 19.2 DSU and other WTO covered agreements.[6]

Even if the Panel holds that it has discretion to decline the jurisdiction, it should not do so. The WTO Panel is the appropriate forum. The measures at issue violate TRIPS and GATT provisions which do not fall within the jurisdiction of a MIFFTA tribunal. Furthermore, it is uncertain whether a MIFFTA tribunal would have the far-reaching jurisdiction needed to resolve this dispute.

II. Claim 1: The LPEA violates Arts. 27.1, 28.1 TRIPS and Art. III:4 GATT

1. The LPEA violates Art. 27.1(2) TRIPS

The LPEA violates Art. 27.1(2) because it discriminates a) *de jure* and even if it does not discriminate *de jure*, it discriminates b) *de facto.*

a) The LPEA's "locally working" requirement is *de jure* discrimination

The LPEA discriminates *de jure.* Art. 27.1 requires that patent rights shall be available and enjoyed without discrimination as to *inter alia* whether products are imported or locally produced. *De jure* discrimination arises from explicit different treatment.[7] This treatment must be determined by "the precise legal text in issue".[8] The express wording "locally work" of the LPEA constitutes *de jure* discrimination between domestic products and foreign products because it discriminates explicitly against the imported products. The footnote to para. 795 LPEA excludes the possibility that imported products can fulfil the requirement of

[3] ABR, *EC – Sugar*, [310]; PR, *EC – Sugar*, [7.63].
[4] ABR, *Australia – Salmon*, [223].
[5] ABR, *Mexico – Soft Drinks*, [57]; PR, *Mexico – Soft Drinks*, [7.1].
[6] PR, *Mexico – Soft Drinks*, [7.9].
[7] PR, *Canada - Pharmaceuticals*, [7.94].
[8] ABR, *Canada - Autos*, [100]; PR, *Canada - Pharmaceuticals*, [7.98]; UNCTAD - ICTSD (2005), 75.

"being locally worked". *Ipland* cannot validate its CL provision on the Paris Convention. The Paris Convention is incorporated into TRIPS pursuant to Art. 2.1 TRIPS which states that Members shall comply with Arts. 1-12, 19 Paris Convention. Art. 5(A)(2) Paris Convention authorizes members to grant a CL on the basis of failure to work, thus providing the option for authorities to grant CL where a patent is not worked as a means to prevent abuse of patent rights. This exception does not extend to failure to locally work where the patent is being worked elsewhere.[9] Such an extension of failure to work would be contrary to Art. 27.1(2).

b) The LPEA discriminates *de facto*

Even if the Panel concludes that there is no *de jure* discrimination, the LPEA discriminates *de facto*. *De facto* discrimination is also prohibited by Art. 27.1(2)[10] and arises where rules are facially neutral but operate in a discriminatory manner[11]. Two essential elements[12] must be fulfilled. (1) A discriminatory effect has to be shown as to whether the measure imposes differentially disadvantageous consequences on certain parties.[13] (2) A discriminatory purpose has to exist based on the measure's objective characteristics[14] as to competition.

aa) The LPEA's "locally working" requirement is *de facto* discrimination

The LPEA imposes discriminatory disadvantages because the patent holder has to bear a financial burden. On the one hand, in order to meet the requirement of LPEA, patent holders must produce in *Ipland*. Patent holders have to build up manufacturing capacity which results in high costs in cases where there is already a production capacity elsewhere. On the other hand, if the patent holders do not meet the requirements, they lose the profit on the *Iplandian* market. The discriminatory purpose of the LPEA is the goal to further local production.

bb) Discrimination as to the field of technology

The effect of the LPEA is discriminatory because the LPEA discriminates specifically against pharmaceutical producers. The measure only applies in the pharmaceutical sector. *Ipland* issues the CL when patents are not worked locally in order to encourage the pharmaceutical industry. Furthermore, the purpose of the LPEA is discriminatory because the primary reason for passing the measure was to promote local production, and specifically to encourage the pharmaceutical industry. At the same time, *Ipland* encourages its position on the pharmaceutical market. This encouragement interferes with competition.

2. *Ipland's* LPEA violates Art. 28.1. TRIPS

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[9] Wegner (2006), 164.
[10] PR, *Canada - Pharmaceuticals*, [7.101].
[11] PR, *Canada - Pharmaceuticals*, [7.94]; UNCTAD - ICTSD (2005), 76.
[12] PR, *Canada - Pharmaceuticals*, [7.101].
[13] PR, *Canada - Pharmaceuticals*, [7.101].
[14] PR, *Canada - Pharmaceuticals*, [7.101].

a) *Ipland's* LPEA violates the prevention right of Art. 28.1. TRIPS

The prevention right conferred by Art. 28.1 is violated by the CL provision. Art. 28.1 provides an exclusive right to prevent third parties from unauthorised using, offering for sale, selling, importing and, in case of products, also making. A CL is an authorization given by a national government allowing third parties to exploit patents without the consent of the patent holder.[15] When a CL has been issued, the patent holders cannot prevent unauthorized use of patents.

b) The LPEA is not justified by Art. 30 TRIPS

The LPEA is not justified as an exception under Art. 30. The exceptions to exclusive rights are not limited, do not conflict with the normal exploitation and unreasonably prejudice the legitimate interests of patent owners.

aa) The exception is not limited

The LPEA is not limited because it constitutes a substantial curtailment of the rights conferred by Art. 28 TRIPS. The panel in *Canada-Pharmaceuticals* held that the term "limited" "connote[s] a narrow exception, one which makes only a small diminution of the rights in question"[16]. The panel assessed the level of curtailment based on volume of products and duration of commercial impact on patents.[17] Where a substantial curtailment of volume and duration occurs, the measure is not limited.[18] The CL provision is not limited or predictable in time or as to the number of patents subject to the provision. *Ipland* cannot argue that the CL under the LPEA is limited in reliance on the Paris Convention. Art. 5(4) Paris Convention provides special conditions for CL. However, as examined above, granting CL on the basis of locally work is not authorized by the Paris Convention.

bb) The LPEA unreasonably conflicts with the normal exploitation

The LPEA does not fulfil the requirement of Art. 30 because it unreasonably conflicts with the normal exploitation of the patent. The patent holder cannot benefit from the usual patent value. The normal exploitation of the patent includes the extraction of commercial value of patents by working the patents[19], excluding all forms of competition detracting market exclusivity.[20] The patent holder cannot benefit from the usual patent use because the patent holder competes with production under the CL and insofar shares the commercial value. The

[15] Halewood (1997), 246; Correa (1999), 3; Mercurio (2004), 219.
[16] PR, *Canada - Pharmaceuticals*, [7.30]; De Carvalho (2005), 306.
[17] PR, *Canada - Pharmaceuticals*, [7.37];
[18] Matsushita/Schoenbaum/Mavroidis (2006), 727.
[19] PR, *Canada - Pharmaceuticals*, [7.51]; Correa (2007), 307.
[20] PR, *Canada - Pharmaceuticals*, [7.55].

patent holder has the right to receive the total amount of the commercial value during the patent term.

cc) The LPEA unreasonably prejudices the patent holder's legitimate interests

Art. 30 TRIPS requires that the exception does not unreasonably prejudice the legitimate interest of the patent owner, taking into account the interests of third parties. The LPEA unreasonably prejudices the patent holder's legitimate interests because the CL limits economic use of the patent. The term "legitimate interest" is defined as "protection of interests that are supported by relevant public policies or other social norms".[21] An unreasonable prejudice arises if the exception has the potential to cause an unreasonable loss of income[22]. According to Art. 3.2 DSU, WTO Agreements are to be interpreted in accordance with rules of treaty interpretation under customary international law and these rules are widely regarded as being codified by Art. 31, 32 VCLT.[23] According to Art. 31(2) VCLT, while interpreting treaty, the preamble has to be considered. The Preamble of TRIPS requires an effective and adequate protection of IPRs. The interest of the patent owner is the protection of his patent rights and the right to make independent economic decisions on place of production. The patent holder is forced to build up production in *Ipland* and cannot make an independent decision on economic conditions. No third parties have a legitimate interest. *Ipland*, which has the burden of proof, cannot support a claim that *Iplandian* consumers have a legitimate interest because there is no health crisis. The well-established rule in WTO law rests the burden of proof for exceptions on the party invoking such exception.[24]

c) The LPEA is not justified under Art. 31(b) TRIPS

The curtailment of the exclusive rights through the LPEA cannot be justified under Art. 31(b) because *Freeland* abused its right under Art. 5(c) Doha Declaration. Art. 31(b) determines that in case of a national emergency, the requirement to obtain a voluntary licence can be waived. Members can rely on Art. 5(c) Doha Declaration which states that "a Member has the right to determine when a national emergency exists". Although the Doha Declaration cannot be regarded as an authentic interpretation according to Art. IX:2 WTOA, it is applicable pursuant to Art. 31(3)(b) VCLT as a subsequent practice[25] because Art. 5(a) Doha Declaration gives a clear guideline[26] for interpreting TRIPS. However, a Member must not

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[21] PR, *Canada - Pharmaceutical*, [7.69].
[22] PR, *US - Copyright Act*, [6.229].
[23] ABR, *U.S. - German Steel*, [61]; ABR, *EC - Sugar Subsidies*, [167]; ABR, *Japan - Alcohlic Beverages*, [11]; ABR, *India - Patent*, [46]; PR, *China - Publications*, [7.8]; *Mitchell* (2007), 810; Bartelt (2003), 302.
[24] PR, *Turkey - Textiles*, [9.57].
[25] Bartelt (2003), 302; Gathii (2002), 311.
[26] Bartelt (2003), 302; Abbott (2001), 47.

abuse its rights[27] under the Doha Declaration. *Ipland* abuses its right to invoke Art. 5(c) Doha Declaration by declaring a national crisis where there is none and using such crisis as a justification of discriminatory actions. Health experts only predicted that the "fairly mild" T1R1 virus "could potentially infect" and mortality is based on the condition "if it mutates". The experts' opinions only indicate an abstract possibility of virus mutation. No official statistical data shows that the virus will actually be life-threatening in the near future.

3. *Ipland's* LPEA violates Art. III:4 GATT

The LPEA violates Art. III:4 because imported and domestic products are like products and the like products are treated less favourably through the LPEA.

a) The relevant products are "like products"

The imported and the domestic pharmaceutical products are "like products". The likeness test was developed by the *Working Party on Border Tax Adjustments*[28] and subsequently applied in GATT and WTO jurisdiction[29]. "Like products" have to share a number of identical or similar characteristics or qualities, such as the properties, nature and quality of the products, and the end-uses[30]. When the only difference between these "like products" is the place of production, panels have still considered such products "like"[31]. The relevant products compared are imported and domestic products: those products patented in *Ipland* but merely imported and products produced under the CL. Both products are produced with an identical process and include the same ingredients. They are identical in nature and quality and both products have the same end-uses as remedies against influenza.

b) The LPEA constitutes a less favourable treatment

Imported products are treated less favourably through the LPEA. The object and purpose of Art. III:4 is to guarantee effective market access to imported products.[32] It has to be examined whether a measure adversely modifies the conditions of competition in the relevant market to the detriment of imported products.[33] The LPEA adversely modifies the conditions of competition in the *Iplandian* market because imported patented products are subject to detrimental conditions as domestic products. A producer with a patent in *Ipland* but a manufacturing capacity outside of the *Iplandian* territory has to build production facilities to

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[27] Bin Cheng (1993), 121.
[28] Border Tax Adjustments, Working Party Report, BISDN 18S97, [18].
[29] ABR, *Japan - Alcoholic Beverages* II, [20]; ABR, *Korea - Alcohol*, [137]; PR, *US - Gasoline*, [6.8].
[30] ABR, *EC - Asbestos*, [101]; PR, *China - Publications*, [7.1445]; PR, *Indonesia - Automoblies*, [14.109]; Mavroidis (2005), 145.
[31] PR, *Turkey - Rice*, [7.214]; PR, *India - Autos*, [7.174]; PR, *Canada - Wheat*, [6.164].
[32] ABR, *Korea - Beef*, [627].
[33] ABR, *Korea - Beef*, [137]; PR, *China - Auto Parts*, [7.265]; PR, *EC - Trademarks/GIs (Australia)*, [7.266].

avoid CL. This leads to a detriment to imported products. In case of a CL, the patent holder faces economic disadvantages. The commercial value that arises out of a patent is diminished. Domestic companies have direct market access and better conditions for sale.

c) The LPEA is not justified by Art. XX GATT

The LPEA is not justified under Art. XX since it does not fulfil the two-tier test established by various AB decisions[34]. It does not fall within the scope of particular exceptions and does not fulfil the requirements of the *chapeau*.

aa) The LPEA does not meet the requirements of Art. XX(b) GATT

The LPEA does not meet the requirements of Art. XX(b) since the LPEA's policy does not fall in the range of policies and even if it falls into the range, the LPEA is not necessary.

i) The LPEA does not fall in the range of policies

The LPEA does not fall in the range of policies that justify exceptions; specifically it was not enacted to protect human health. The respective policy in dispute must be designed to protect human, animal, plant life or health.[35] *Ipland* cannot prove that the LPEA was designed to protect human life and health because it was issued to expand local production in *Ipland*. Although the T1R1 may have been a reason for the adoption, the LPEA does not specifically impact production of medicine to fight T1R1. The application of the LPEA extends to all products, and it was enacted before a pandemic influenza arose[36].

ii) The LPEA is not necessary

The LPEA is not necessary to protect human health because it does not fulfil the necessity test. This test includes (1) a process of weighing and balancing: the relative importance of the interests or values; the contribution of the measure to the realization of the ends; the restrictive impact of the measure on international commerce[37] and (2) whether an alternative measure exists which could reasonably be expected to be employed.[38] The measure must make a material contribution to the achievement of its objective[39]. (1) *Ipland's* alleged goal is to protect the human life and health against the influenza virus. Although protection of human life is a valuable interest, there is no clear contribution to this goal by promoting values and interests to further local production. There is no evidence that the measures have

[34] ABR, *Korea - Beef*, [156]; ABR, *US - Shrimp*, [118]; ABR, *US - Gasoline*, [22].
[35] PR, *US - Gasoline*, [6.20]; PR, *EC - Tariff Preferences*, [7.197].
[36] EMC² Clarification question number 17.
[37] ABR, *Brazil - Tyres*, [143]; ABR, *Dominican Republic - Cigarettes*, [70]; ABR, *Korea - Beef*, [164]; ABR, *EC - Asbestos*, [172]; ABR, *US - Gambling*, [306]; ABR, *China - Publications*, [240]; PR, *Brazil - Tyres*, [7.104].
[38] ABR, *EC - Asbestos*, [172]; PR, *Thailand - Cigarettes*, [75]; PR, *United States - Section 337*, [5.26].
[39] ABR, *Brazil - Tyres*, [150].

in fact aided in producing measures to combat T1R1. The local working requirement has adverse impact on international commerce as well. The population could be equally protected through measures with a less extensive impact on international commerce. (2) Alternative measures which could reasonably be expected to be employed exist. The demand for pharmaceutical products could instead be satisfied through import[40]. Storage of pharmaceutical products is a second alternative. If the T1R1 virus mutates, *Ipland* can resort to the stored medicine and is not forced to primarily produce the essential products. Such measures would have a less restrictive impact on international commerce.

bb) The requirements of the *chapeau* of Art. XX GATT are not met

Even if the measure falls into the exception of Art. XX(b), the requirements of the *chapeau* are not met because the LPEA discriminates arbitrarily and unjustifiably. The *chapeau* addresses the manner in which the measure is applied[41] and seeks to prevent the abuse of the exceptions of Art. XX[42]. The measure shall not discriminate arbitrarily and unjustifiably between two states where the same conditions prevail.

Ipland attempts to justify the less favorable treatment of imported products with the need to supply the domestic market with sufficient medicine. A national emergency does not exist. *Ipland's* intent is to promote the establishment of local industry rather than to specifically protect human health. *Ipland* promotes these goals through the CL and incentives. Regarding the local manufacturing incentives, these are unjustifiable because they lead to a better market position for the *Iplandian* patent holders. Foreign patent holders producing outside of *Ipland* cannot benefit from these incentives.

4. Art. XX GATT cannot justify the TRIPS violations

Ipland cannot demonstrate that Art. XX GATT also justifies the claimed TRIPS violations. Art. XX GATT contains a justification clause specifically for GATT violations. A similar exception exists in Art. XIV GATS as well, but the negotiators did not include such a justification clause in the TRIPS Agreement. Although the recent AB in *China-Publications*[43] considered Art. XX as a justification for GATS, the AB never decided the point of whether Art. XX could be applied to other WTO Agreements. Even if the AB had applied Art. XX to GATS, there is no stare decisis[44] on WTO law. The reports of the panels and the AB are not

[40] Halewood (1997), 261.
[41] ABR, *US - Shrimp*, [115]; ABR, *US - Gasoline*, [22]; ABR, *US - Gambling*, [339].
[42] ABR, *US - Shrimp*, [117]; ABR, *US - Gasoline*, [22]; Van den Bossche (2008), 617.
[43] ABR, *China - Publications*, [205], [233].
[44] http://www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/c7s2p1_e.htm.

binding precedents for other disputes. Every Agreement has its own intent and autonomy[45] and if panels would apply GATT justification clauses to TRIPS, it would create uncertainty[46] regarding the relationship between these agreements.

III. Claim 2: The transit restrictions and seizure on the basis of TM and GI infringement violate Arts. 1.1, 41.1, 41.2, 51, 53.1 TRIPS, Art. V GATT

1. The transit restrictions based on TM and GI contravene Art. 1.1 TRIPS

Ipland's more extensive protection contravenes Art. 1.1. This provision confirms that TRIPS is a minimum standard agreement in respect to IPRs[47]. In addition, if there is more extensive protection it shall comply with TRIPS. *Ipland's* transit restrictions of IPRs are more extensive than the minimum standards required by TRIPS. This extension is not in conformity with the claimed TRIPS provisions.

2. *Ipland* violates Art. 41.1 TRIPS through the PREA

Ipland violates Art. 41.1(2) because the enforcement procedures create trade barriers to legitimate trade. This is not balanced with the effective protection of IPRs. Art. 41.1 requires available and effective enforcement procedures against IPR infringement. These procedures must not be applied in a way that creates barriers to legitimate trade. There must be balance between effective protection of IPRs, the avoidance of an encumbrance on economic activities and the prevention of any possible abuse.[48] The PREA and the Customs Laws provide enforcement procedures for IPRs. Through the PREA, *Ipland* removed the requirement for the applicant to pay US$25,000 security when filing an application for suspension. There are no obstacles or restrictions on filing an application. This application procedure could easily be abused because there is no detriment to filing. The application could be extended to legally traded goods, causing encumbrance on economic activities. There is no financial protection for the trader if the trade was legitimate.

3. *Ipland's* procedures violate Art. 41.2 TRIPS

Ipland's enforcement procedures create unwarranted delays. Art. 41.2 obliges Members to provide fair and equitable proceedings that do not constitute unwarranted delays. Delays are unwarranted if they "are not tied to any valid reason related to the examination and grant process".[49] The current delay is related to the challenge of the legality of the seizure based on the TM and GI infringement. The manufacturers of "Revitall" have instigated proceedings in

[45] PR, *Canada - Periodicals*, [5.17].
[46] PR, *Canada - Periodicals*, [3.35].
[47] PR, *Canada - Patent Term*, [6.87].
[48] Vander in: Stoll/Busche/Arend (2009), 691.
[49] PR, *Canada - Patent Term*, [6.117].

the *Iplandian* court, but it is still pending and will not be completed within the next year. The goods continue to be suspended. These proceedings are not related to the examination and grant process.

4. *Ipland's* transit restrictions violate Art. 53.1 TRIPS

Ipland violates Art. 53.1 because there is no security required to protect the traders and the competent authorities. Art. 53.1 provides that the competent authorities shall have the authority to require a security or equivalent assurance. These shall not deter recourse. The PREA removed the security payment entirely[50], and there is no other provision which states that the competent authorities can require security. There is a potential for abuse.

5. *Ipland's* border measure violate Art. 51 TRIPS

The seizure of "Revitall" violates Art. 51. This provision enables the right holder to file an application for the suspension "of the release into free circulation" of imported goods on the basis of valid grounds. *Ipland* violates Art. 51 because it is not the country of importation and there is no danger of free circulation.

a) Art. 51 TRIPS shall not be applied to the seizure of "Revitall"

Art. 51 shall not be applied because *Ipland* is not the country of importation. Art. 51 provides that imported goods suspected of IPR infringement are subject to suspension. Art. 31(1) VCLT requires that a treaty has to be read with respect to the "object and purpose". The meaning of "importation" must be defined based on the purpose of TRIPS. Art. 51 distinguishes between "importation" and "goods in transit". Footnote 14 of Art. 51 refers to the law of the country of *importation*. Thus, there is no basis for application of TM laws to goods not imported.[51] By making this distinction, the language of TRIPS distinguishes between an imported good entering for purposes of commerce and a "good in transit" only in a state for transportation purposes. "Revitall" was shipped from *Midonia* through *Ipland* and destined for sale in *Freeland*. "Revitall" was not entering *Ipland* for commercial purposes. "Revitall" was merely a good in transit. The seizure of "Revitall cannot be based on *Ipland's* TM and GI Act because "Revitall" is not imported into Ipland.

b) Footnote 13 of Art. 51 TRIPS shall not be applied to the seizure of "Revitall"

Ipland cannot base the seizure of "Revitall" on the provision in Footnote 13 of Art. 51. According to Footnote 13 border measures can be extended to "goods in transit". However, Footnote 13 is linked to the general requirements of Art. 51 and therefore, only applicable if a

[50] EMC² Case, para 16.
[51] Kumar (2009), 11.

danger of free circulation of the transiting goods exists. The TRIPS purpose to protect IPRs[52] is not nullified when goods are only in transit without danger of free circulation on the internal market. As submitted above, *Ipland* is the country of transit. There are no indications that "Revitall" enters into free circulation of the *Iplandian* market. Applying the provisions of Art. 51 to all goods in transit without danger of free circulation contradicts Art. V GATT. Members are obliged by Art. V GATT to guarantee freedom of transit through the routes most convenient. *Ipland* cannot submit that Art. 51 TRIPS is *lex specialis* to Art. V GATT; in the case of "goods in transit" without danger of free circulation, Art. 51 is *a priori* not applicable.

c) "Revitall" does not violate *Ipland's* TM and GI laws

Even if the Panel concludes that Art. 51 TRIPS is applicable and goods in transit can be seized, "Revitall" does not violate *Freeland's* IPRs and TM and GI for "Sambati" do not exist in *Ipland*. Art. 51 requires an infringement of a valid TM.

aa) The law of the "country of importation" applies to goods in transit

When border measures are applied to goods in transit, pursuant to the express language of Footnote 14, the law of the "country of importation" applies.[53] Since the goods are entering the *Freelandian* market and only in transit through *Ipland*, the law of *Freeland* would be applied to any goods in transit through *Ipland*. "Revitall" does not infringe on any IPRs in *Freeland* and thus the goods in transit shall not be seized for TM or GI infringement.

bb) "Sambati" does not exist as a TM

The TM for "Sambati" does not exist. As stated in Art. 15.1(1) TRIPS, a TM has to be "capable of distinguishing the goods or services of one undertaking from those of other undertakings". *Ipland* must have goods which use the TM "Sambati" to distinguish them from other products, specifically *Midonian* pharmaceuticals. *Ipland* does not produce any goods which use the TM "Sambati". There is no danger of confusion.

cc) "Sambati" does not exist as a GI

A GI for "Sambati" does not exist because it is a customary term. The *Iplandian* GI has to meet the general requirements for GI protection of TRIPS. Art. 22 TRIPS indicates that a GI is "a good originating in the territory of a Member [...] where a given quality, reputation or other characteristics of the good is essentially attributable to its geographical origin". The

[52] TRIPS - Preamble I.A.

[53] http://worldtradelaw.typepad.com/ielpblog/2009/01/generic-pharmaceuticals-patent-infringement-and-freedom-of-transit-.html (last visited: 28.01.2010).

protection of GIs has to be limited where it is a customary term.[54] Pursuant to Art. 24.6 "customary term" means the common name for a good. "Sambati" grows in the jungle of *Ipland*, *Freeland*, and *Midonia*. It has been known and called by "sambati" for centuries; it is special to the whole region. The word "sambati" nor the herb is exclusive to *Ipland*.

Moreover, it is not possible to base the seizure on a GI infringement, because the GI does not fall into the scope of Art. 51(2). According to Art. 31(1) VCLT a treaty has to be interpreted in the ordinary meaning. The ordinary meaning of Art. 51 does not include other IPRs besides TM. The "provision does not apply to other types of [IPRs]"[55]. The term "other" is merely connected to "infringements".

6. *Ipland* violates its obligation under Art. V GATT

Ipland violates its obligations by not providing freedom of transit under Art. V:2 and this restriction is not justified by Art. XX(d).

a) *Ipland's* border measures infringe Art. V:2 GATT

Ipland violates the obligation pursuant to Art. V:2 by restricting the freedom of transit on the routes most convenient. Art. V:2 contains an obligation to introduce freedom of transit "via the routes most convenient"[56] within the territory of a Member. "Revitall" is a good in transit within the meaning of Art. V:1. The route *Midonia* used is the "most convenient" and the only way to trade between the two countries; the impenetrable jungle obstructs other routes. *Ipland* violates the obligation to guarantee freedom of transit.

b) *Ipland's* border measures are not justified by Art. XX GATT

The transit restrictions and the seizure are not justified since they do not fall under Art. XX(d) and the requirements of the *chapeau* are not fulfilled.

aa) *Ipland's* measures do not meet the requirements of Art. XX(d) GATT

The *Iplandian* border measures do not fall in the scope of Art. XX(d) since (1) the PREA does not secure compliance with other laws or regulations and (2) even if the measures secure compliance, the measures do not meet the requirements of the necessity test. (1) The PREA does not secure compliance with laws or regulations. The term "laws or regulations" are rules that form part of the domestic legal system of a WTO member[57]. The MIFFTA, a Free Trade Agreement, is an international agreement. Thus, it cannot be seen as a part of the domestic legal system. Even if the MIFFTA forms part of the domestic legal system, the

[54] http://www.wto.org/english/tratop_e/TRIPs_e/gi_background_e.htm (Article 24) (last visited: 1.12.2009); Wattanapruttipaisan (2009), 9; Gervais (2003), 206/207.
[55] Correa (2007), 439.
[56] PR, *Colombia - Ports of Entry*, [7.400].
[57] ABR, *Mexico - Soft Drinks*, [70]; PR, *Columbia - Ports of Entry*, [7.515]; PR, *China - Auto Parts*, [7.228].

PREA and the Customs Laws do not secure compliance with it. Art. 2.2 MIFFTA requires freedom of transit for legally traded goods. However, the *Iplandian* provisions impact illegally as well as legally traded goods. (2) Even if the PREA is introduced to secure compliance with MIFFTA, the PREA is not necessary. The PREA does not contribute to the enforcement of MIFFTA. This provision was created to guarantee freedom of transit. However, as submitted above the PREA constitutes trade barriers even to legitimate trade. Thus, the PREA does not make a contribution necessary to secure compliance. The common interests of rights holders and the enforcement of the freedom of transit must be weighed and balanced. *Ipland* tried to enforce the protection of IPRs of its right holders but the PREA overextended these rights and violated *Ipland's* obligation to guarantee freedom of transit. As it is emphasized by the TRIPS Preamble, the enforcement of IPRs shall not themselves become trade barriers. The freedom of transit has been violated in favor of protecting IPRs. Alternative measures exist. One such alternative measure is to implement a flexible provision which calculates the amount of security by the value of goods paid by the rights holder. The rights holder must have minimum *prima facie* evidence to file an application. Thus, the rights holder would keep his right to file an application and likewise, the defendant would have, in case of loss, compensation for damages. These alternatives would support freedom of transit.

bb) The requirements of the *chapeau* are not fulfilled

Even if the measures fall under the justification of Art. XX(d), the requirements of the *chapeau* are not met. (1) The application of the PREA constitutes such an arbitrary as well as unjustifiable discrimination because *Midonian* traders, dealing with legal products, are affected by the *Iplandian* border measures as well. The PREA contains no security or remuneration to indemnify the traders if their goods are falsely seized. Hence, the PREA is unjustifiable and arbitrary. (2) The PREA leads to a disguised restriction on international trade because the defendant does not know if and on which basis his goods might be seized. The trader must deal with unpredictable trading and transport factors, specifically regarding notification of suspension, resulting in a risk for a trader to use *Ipland's* trade corridor.

IV. The transit restrictions and the seizure on the basis of patent infringement violate Arts. 1.1, 41.1, 41.2., 51, 53, 58 TRIPS and Art. V of the GATT

1. The transit restrictions and seizure infringe Art. 1.1 TRIPS

The border measures on patent infringement are inconsistent with Art. 1.1 because they contain more extensive protection which contravenes TRIPS. The measures are not in conformity with Art. 51, 53 and 58 TRIPS.

2. The transit restrictions and the seizure violate Art. 41.1 TRIPS

Ipland's border measures violate Art. 41.1(2) since their enforcement procedures create trade barriers to legitimate trade. *Ipland's* Customs officials seized several shipments of *Midonian* goods because they reportedly contained unlicensed "sambati". There is no evidence in the record that "sambati" was unlicensed and thus no grounds for the suspension. The suspension could also be applied to legally traded goods.

3. *Ipland's* transit restrictions violate Art. 41.2 TRIPS

The PREA is inconsistent with Art. 41.2(2) since the enforcement procedures contain unwarranted delays. When acting *ex officio* the traders are obliged to wait at least 10 days before they are permitted to file an application for the release of the suspended goods. This contains unwarranted delays since there is no reason for this waiting period. In comparison to the situation when acting upon an application of the right holder, such a 10 days rule does not exist. The 10 days are not necessary for the customs processing related to the suspension. Furthermore, the PREA extends the duration of the suspension to 20 days because after the waiting period of 10 days the right holder can commence proceedings within 10 days.

4. The border measures violate Art. 53 TRIPS

Ipland's transit restrictions and the seizure infringe Art. 53 because as submitted above, there is no security or equivalent assurance to protect the defendant and allow competent authorities to prevent abuse pursuant to Art. 53.1. Furthermore, *Ipland* does not provide a provision which entitles the owner, importer, or consignee to post a security to release suspended goods sufficient to protect the right holder for any infringement pursuant to Art. 53.2. This provision states that the importer "shall be entitled" to a security. This provision is an obligation but *Ipland* never provided such a security for the right holder.

5. *Ipland's* seizure violates Art. 58 TRIPS

Ipland's seizure of the CFPR product infringes Art. 58 since the *Iplandian* Customs officials have not acquired *prima facie* evidence that an IPR is being infringed. *Prima facie* means "at first sight, on first appearance but subject to further evidence or information."[58] The Customs officials seized several shipments of a particular herbal remedy simply because it was reportedly unlicensed "sambati". From visual observation, the customs authorities could not determine if there was unlicensed "sambati" in the CFPR. From such investigation, it is not possible to establish *prima facie* evidence that unlicensed "sambati" was used in CFPR. *Ipland's* border measure violate Art. 51 TRIPS

a) Art. 51 TRIPS is not applicable

[58] Garner (2006), 560-561.

Art. 51 TRIPS is not applicable because *Ipland* is not the country of importation. CFPR was exported from *Midonia* and destined to be imported into *Freeland*. The goods were not imported for sale in *Ipland* and there is no intent of commerce. Furthermore, *Ipland's* law is not applicable. Since CFPR is a good in transit, *Ipland* cannot protect its process patent.

b) Footnote 13 of Art. 51 TRIPS is not applicable

aa) Footnote 13 of Art. 51 is not applicable to the seizure of "Revitall"

Ipland cannot base the seizure of CFPR on the provision in footnote 13 of Art. 51 because it is not applicable. CFPR was destined to be parallel imported into *Freeland*. There is no evidence that the good enters the internal market of *Ipland*. An application of Footnote 13 to all goods in transit contradicts *Ipland*'*s* Art. V GATT obligation to provide freedom of transit.

bb) Footnote 13 of Art. 51 TRIPS is not applicable to parallel imported goods

The *Iplandian* border measures shall not be applied to parallel import of pharmaceutical products. Footnote 13 of Art. 51 allows but does not oblige the application of procedures for parallel imported goods. Art. 4 Doha Declaration states that "the TRIPS Agreement does not and shall not prevent Members from taking measures to protect public health" and that the right to protect public health is "in particular access to medicines for all". The UN Charter also obliges in Art. 55(b) to promote a solution for health problems. In applying Footnote 13 of Art. 51 to pharmaceutical products in transit, *Ipland* diminishes the rights of Art. 4 Doha Declaration and Art. 55(b) UN Charter. The CFPR was destined to be parallel imported into *Freeland*. This medicine has anti-viral properties to be effective against influenza. The CFPR has lifesaving properties and the supply of the *Freelandian* market shall be ensured.

c) CFPR is not within the scope of Art. 51 TRIPS

aa) The law of the "country of importation" applies to goods in transit

As examined above, the *Freelandian* law is applicable and there is no patent for the extraction process for "sambati".

bb) The *Iplandian* process patent does not exist

Even if the Panel concludes that Art. 51 is applicable, the process patent for the extraction of "sambati" does not exist. Art. 27.1(1) deals with the patentable subject matter of patents. It states *inter alia* that a process has to be 'new'. A process is new if it was previously available to the public[59] but obtains new therapeutic effects[60]. The *Iplandian* researchers merely perfected the process of separating and extracting the medicinally relevant portion of

[59] Correa (2000), 53.
[60] De Carvalho (2005), 189.

"sambati". A prior technique to extract "sambati" for therapeutic effects already existed. "Sambati" in medicine was already available to the public *e.g.* the popular CFPR.

cc) Patents are not within the scope of Art. 51 TRIPS

Process patents are not covered by the scope of Art. 51(2) because an infringement of a patent cannot be seen by a visual inspection.[61] Without proper investigation, the custom authorities cannot investigate whether an active ingredient of an imported pharmaceutical infringes a patent covering a particular process.[62] *Ipland* based the seizure on a process patent infringement but this is not covered by Art. 51(2).

6. *Ipland* violates its obligation under Art. V GATT and the measures are not justified by Art. XX GATT

a) *Ipland's* border measures violate Art. V:2 GATT

As examined above, the *Iplandian* transit restrictions and the seizure are inconsistent with Art. V:2. According to the definition in Art. V:1 the CFPR product is a good in transit. *Midonia* used the route most convenient through *Ipland* and the seizure of this good violates the freedom of transit provided by Art. V:2. Furthermore, *Ipland* applies their IPR law extra-territorially by forcing *Freeland* and *Midonia* to comply with *Ipland's* domestic law.

b) *Ipland's* border measures are not justified by Art. XX GATT

The *Iplandian* border measures are not justified by Art. XX. (1) The PREA and the Customs Laws do not secure compliance with MIFFTA, and even if the laws do secure compliance, they are not necessary because an alternative measure exists. (2) The PREA leads to an arbitrary and unjustifiable discrimination because legally traded goods are not protected from seizure. In the case of wrongly seized goods, the trader has no security.

[61] Correa (2006), 440.
[62] Fink/Correa (2009), 49.

Request for Findings

Freeland asks the Panel to recommend that the DSB requests *Ipland* to bring:

I. the LPEA which violates Arts. 27.1, 28.1 TRIPS and Art. III:4 GATT and not justified under Arts. 30, 31 TRIPS and Art. XX GATT;

II. the transit restrictions and the seizure which have been found to violate Arts. 1.1, 41.1, 41.2, 51, 53.1 TRIPS and Art. V GATT and not justified under Art. XX GATT; and

III. the transit restrictions and the seizure which violate Art. 1.1, 41.1, 41.2, 51, 53, 58 TRIPS and Art. V GATT and not justified under Art. XX GATT

into conformity with its obligations under WTO law.