
Dispute settlement in TRIPS: A two-edged sword

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In the Uruguay Round of multilateral trade negotiations under the GATT, the negotiations on the TRIPS Agreement were not alone in making a slow start. IPRs were a radically new subject matter for the GATT. There was both uncertainty as to just what could be considered trade-related aspects of IPRs, and disagreement over the appropriateness of trying to incorporate them into a negotiation about goods. The constructive ambiguity of the mandate – necessary to achieve consensus at Punta del Este – led to strong disagreement over what did or did not fall within it. This disagreement continued throughout most of the negotiations, and was only attenuated towards the end.

It was the first indent of the mandate, the clarification of GATT provisions and the elaboration “as appropriate” of new rules and disciplines, that was problematic. There was no major challenge to the relevance of the GATT to the second indent covering international trade in counterfeit goods. This was, after all, clearly about goods crossing borders, and could be seen as building on work already conducted within the organization.

The major concerns held by developing countries – clearly not the *demandeurs* in this negotiation – were twofold: first, that it was inappropriate to use the GATT to set IP standards, since they were the prerogative of other bodies, notably WIPO;¹ second (and related to the first), the fear that trade sanctions under the GATT dispute settlement mechanism could be used, in effect, to enforce IP standards. The latter was not a hypothetical fear. The US Section 301 action against Brazil took place early in the TRIPS negotiations, and only served to heighten the concerns:

Brazil informed the Group that on 20 October 1988 unilateral restrictions had been applied by the United States to Brazilian

exports as a retaliatory action in connection with an intellectual property issue. This type of action seriously inhibited Brazilian participation in the work of the Group, since no country could be expected to participate in negotiations while experiencing pressures on the substance of its position. The action of the United States Government was a blatant infringement of GATT rules and was thus contrary to the standstill commitment of the Declaration of Punta del Este. The United States action was an attempt to coerce Brazil to change its intellectual property legislation. However, Brazil's legislation was fully consistent with the relevant intellectual property conventions. Furthermore, it represented an attempt by the United States to improve its negotiating position in the Uruguay Round, specifically in this Group.²

Not long afterwards, others finding themselves on the watch lists of the US Special Section 301 also expressed their concern in the TRIPS Negotiating Group:

A number of participants stated their deep concern about certain decisions taken by the United States under Section 301 of its Tariff Act, in particular the listing under "special" Section 301 relating to IPRs of countries on a "priority watch list". These decisions were jeopardising the work of the Negotiating Group and threatened to wreck the Uruguay Round as a whole.³

The possibility of institutionalizing such action, through what became known as "cross-retaliation" or, alternatively, "cross-compensation",⁴ under a TRIPS agreement, was simply unacceptable to many countries.⁵ The United States had drawn attention to this possibility in an early submission to the TRIPS Negotiating Group.⁶ A typical reaction was as follows:

Concerning the provision in the dispute settlement part of the US paper for retaliation to include the possibility of withdrawal of equivalent GATT concessions, some participants said that such a linkage would be unacceptable. It was also asked what would be the incentive to a country to join such an agreement if it thereby put at risk its GATT benefits in a way that would not occur if it stayed out.⁷

The rationale given by the United States was:

(...) the possibility of retaliation taking the form of withdrawal of GATT benefits had been included because experience of trade disputes had shown that limiting the ways of restoring the appropriate balance of concessions in cases of non-compliance made more difficult the satisfactory resolution of disputes.⁸

In other words, the United States wanted to ensure that there was full scope for the type of measures already provided for under Section 301.

Cross-retaliation became equally important to the other major proponent of the TRIPS negotiations, the European Communities (EC). Coming several years after the US proposal, the following rationale given by the EC for its proposal⁹ shows the extent of the common ground on this point:

[T]he achievement of this objective would be dependant[sic] on the establishment of an effective dispute settlement mechanism (...) It was therefore necessary to provide for the possibility of meaningful sanctions in cases where other measures had proved insufficient to solve a dispute. The Community proposal therefore suggested that, in conformity with Article XXIII of the General Agreement, such sanctions could include the possible suspension by a contracting party of the application of any concession or other obligation under the GATT, as determined to be appropriate by the Contracting Parties.¹⁰

So, from the developing countries' point of view, the two parties most likely to pursue dispute settlement action against them were both advocating the ability to use trade sanctions for IPR breaches.

There was no reference to dispute settlement in the Punta del Este Ministerial Declaration that established the TRIPS mandate. But, as a result of the April 1989 mid-term review, the importance of dispute settlement to a TRIPS outcome was acknowledged by a new agenda item in the Negotiating Group's work, namely, "the provision of effective and expeditious procedures for the multilateral prevention and settlement of disputes between governments, including the applicability of GATT procedures".¹¹ This enabled greater momentum on the topic, and a more in-depth exploration of the issues. At the same time, there was some important reassurance given in response to the concerns about unilateral measures:

Ministers emphasise the importance of reducing tensions in this area by reaching strengthened commitments to resolve disputes on trade-related intellectual property issues through multilateral procedures.¹²

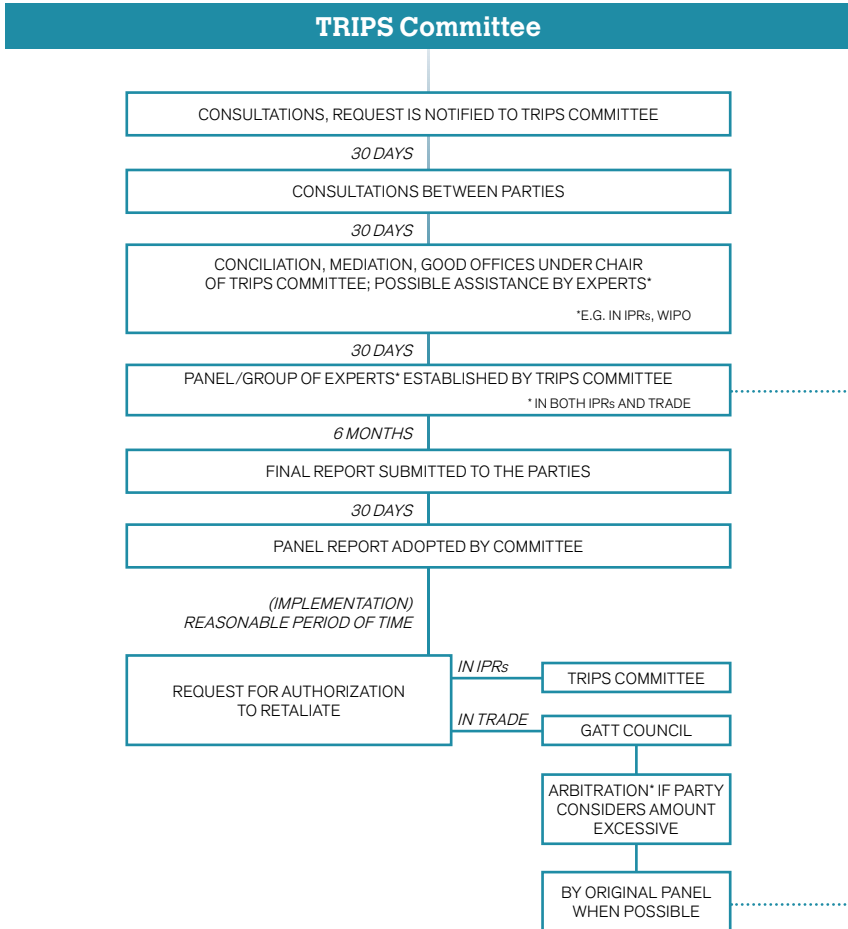
The New Zealand/Colombia/Uruguay proposal

Since the mid-term review then determined that IPRs would be the subject of substantive negotiations within the GATT, it became even more important to resolve the differences over dispute settlement. An informal initiative was taken by New Zealand and Colombia, later supported by Uruguay, to try to deal with some of the issues at a conceptual level. It was hoped that this might make dispute settlement less of an impediment to advancement of the negotiations. The rejection out of hand of cross-retaliation, an idea that was of key importance to the principal proponents of a TRIPS agreement, would have created a distraction from the rest of the increasingly complex subject matter of the negotiations. So it was felt worth floating some ideas that could bridge the differences and perhaps take some heat out of the discussion. At the time, I was New Zealand's negotiator for dispute settlement, and we wanted to see whether it was possible, while still allowing for cross-retaliation, to make it a less threatening prospect, and hence a less divisive topic at this point in the negotiations. I could also make use of my knowledge of this negotiation to try to advance the subject within TRIPS negotiations more generally.

There were difficulties in that it was not known what shape the GATT dispute settlement provisions would take, or what institutional structure would apply under the TRIPS Agreement. The idea of a TRIPS council (rather than the default assumption of a committee) came much later. Any ideas in the proposal could thus not be over prescriptive and had to be flexible enough to cover a range of dispute settlement and institutional outcomes.

To this end, rather than come up with yet another detailed proposal, we decided to produce a flow chart of how a dispute settlement process might work, with a minimum of textual description. We wanted something that was relatively simple and, in any case, easily understandable. So it did not attempt to reflect the full dispute settlement procedure. Further, it was not presented as a formal proposal since its aim was more to facilitate progress and compromise in the negotiations than to be a complete template (see figure 2).

Figure 2: New Zealand/Columbia/Uruguay proposal for TRIPS dispute settlement



Notes

1. The only assumption made about the final form of a TRIPS Agreement is the establishment of a TRIPS Committee.
2. The suggested procedures are intended to be compatible with the procedures being negotiated in the Dispute Settlement Negotiating Group.
3. The time limits are approximate, and for illustrative purposes only.
4. The diagram is a simplified representation of dispute settlement procedures. Not all intermediate steps are shown, nor are such new suggestions as a review stage for panel reports or an appellate review mechanism.
5. Final decisions on dispute settlement for TRIPS will be dependent on:
 - the final legal form of the TRIPS Agreement.
 - decisions on dispute settlement taken at TNC [Trade Negotiations Committee] level.

It was not easy to disseminate this chart. In the pre-information technology age of the late 1980s, we were restricted to what now seem primitive means. We could not simply reach for a software program and construct the chart electronically. So it was done rather laboriously on large sheets of paper with hand-drawn boxes and lines. The sheets had to be taped together end on end to show the full chart. After the chart's first airing, the Secretariat helped us out by tidying up our initial efforts in order to make it more presentable.

The key principles of a possible TRIPS dispute settlement mechanism put forward in the proposal were:

- A consultation and panel process that would follow, as far as possible, standard GATT procedures and timetables
- Use of both IPR and trade experts on panels
- A possibility of recourse to retaliation in IPRs
- A higher bar to retaliation in goods, with a requirement to seek authorization from a higher body – the General Council
- A safeguard against potential excessive cross-retaliation via an arbitration process.

We suggested that these ideas could be adapted to work under a range of possible Uruguay Round dispute settlement outcomes. The only institutional assumption we made was the establishment of a TRIPS committee.

The most important signal was that there would be no direct route to cross-retaliation. Not only would it have a higher threshold by needing to go the General Council rather than the TRIPS committee, but there would also be a built-in safeguard through recourse to arbitration.

The initiative did succeed in sparking off a constructive discussion in the Negotiating Group. Some other participants suggested amendments. Later in the negotiation, more ideas emerged. These became quite complicated – for example, a Chilean proposal described as a two- or possibly three-stage process, involving WIPO at the first stage.¹³

On the most sensitive point of cross-retaliation, the possibility of retaliation in the other direction, from goods to IP, was hardly touched on in the early stages of the negotiations. The discussions were dominated by the fear of developing countries

of coming under pressure from developed countries. After the mid-term review, there was some further discussion on the basis of the texts annexed to the draft TRIPS agreement. A view was expressed that, if cross-retaliation from TRIPS to trade were to be allowed, logically, the reverse should also apply, allowing TRIPS benefits to be withdrawn if there were a failure to implement market access obligations under the GATT.¹⁴ There was some discussion among developing countries, in the margins of the negotiations, about their potential use of cross-retaliation.¹⁵ But this never made it to the floor of the Negotiating Group. The extent that retaliation in IPRs could be an effective weapon for developing countries was not fully or widely realized at the time, either by the proponents of cross-retaliation or by the developing countries themselves.

Influence of the New Zealand/Colombia/Uruguay ideas

The ideas embodied in the chart found their way into the text forwarded to the 1990 Brussels ministerial meeting, and were the basis for most of the discussion. This finally put some of the ideas in the chart into a textual form, as option 1, which provided for application *mutatis mutandis* of GATT dispute settlement procedures. On the question of retaliation, the distinction between retaliation “in kind” and cross-retaliation, with a higher threshold for the latter, was maintained. The safeguard of arbitration was also included:

If a PARTY fails to implement the recommendations and rulings of the Committee within the reasonable period of time, the complaining PARTY may:

- request the Committee for authorisation to suspend obligations under this Agreement; or
- request the GATT Council for authorisation to suspend concessions or other obligations under the General Agreement on Tariffs and Trade. If the PARTY that would be subject to such measures objects to the level of suspension proposed, the matter shall be referred to arbitration. Such arbitration shall where possible be carried out by the original panel. The arbitration body shall determine whether the amount of trade covered is appropriate in the circumstances.¹⁶

The Chair recognized that the extent to which it was possible to carry forward these discussions and settle differences had been limited by the linkage with

institutional arrangements, whose outcome could only be known at the end of the negotiations, and the lack of clarity on the future dispute settlement mechanism.

In the final period of the negotiations, the institutional arrangements, notably, the three councils (on goods, services and IP) and the dispute settlement system, became clearer. This evolution made some of the discussion in the TRIPS negotiations redundant. Some of the concerns could be accommodated through these discussions. Some of the more complex proposals involving other organizations were able to be put aside, and the result is the integrated arrangements under the Dispute Settlement Understanding (DSU).

Key ideas in the proposal can be seen in the current dispute settlement procedures, which allow for retaliation across the three domains of goods, services and IP. The requirement of Article 22.3 that retaliation should first be sought in the area of the complaint retains the concept of the higher threshold. The recourse to arbitration is also retained in Article 22.6, and has been used. Compared with its initial discussion in TRIPS, cross-retaliation has thus been both broadened and simplified.

While not specifically related to cross-retaliation, another level of safeguard or reassurance about dispute settlement action under the TRIPS Agreement was given by the moratorium on non-violation and situational disputes.¹⁷ This is a troublesome enough area when applied to goods concessions and is likely to be even more uncertain in its application to IP. Indeed, 20 years later, the parties had still not managed to agree on the scope and modalities for these types of disputes under the TRIPS Agreement.¹⁸

Cross-retaliation and intellectual property under the WTO in practice

Cross-retaliation now has a sound legal footing in the DSU, and actual experience with it is building up. Indeed, it has come to be primarily a weapon for developing countries for whom withdrawal of goods concessions risks not only being ineffective but also causing harm at home, for example, through increased prices.

The first three cases featuring authorization of cross-retaliation between IP and other domains have involved as complainants one large and two small developing countries. Antigua and Barbuda, Brazil and Ecuador have been authorized to suspend concessions under the TRIPS Agreement on cases as diverse as online gambling, cotton and bananas, respectively.¹⁹ In the Brazilian case, it is notable that the concept of a threshold was applied. As a large developing economy, Brazil

had some capacity for leverage in goods; retaliation under the TRIPS Agreement was thus only authorized after a threshold value of retaliation in goods had been reached. The DSU thus maintains the concept of the New Zealand/Colombia/Uruguay proposal that retaliation should first be sought in the area of the violation. The arbitrators' report on the Ecuador case²⁰ has deepened the understanding of the role of cross-retaliation; it contains the fullest and most coherent exposition yet of the rationale for cross-retaliation under the TRIPS Agreement.

Conclusion

Cross-retaliation has thus proved to be a two-edged sword. There is no evidence from the negotiations that the original proponents of cross-retaliation saw the extent that it could become a weapon that could be used by the weak against the strong. As Brazil commented on the arbitration decision on its case:

The present award contributes to strengthen the WTO dispute settlement mechanism, demonstrating that the system is capable of recognising the evident asymmetries between developed and developing countries.²¹

The DSU provisions not only compensate for such asymmetries but also allow more effective targeting of countermeasures through the greater choice available to the complaining party. This allows more scope for measures to be applied where pressure will be most effective in the jurisdiction of the WTO member that has failed to implement rulings of a panel or the Appellate Body.

From a more theoretical point of view, this history of cross-retaliation in the WTO is an illustration of the role that some informal creative thinking can play in negotiations. Such initiatives were frequent in the Uruguay Round, and often depended on the relationships and trust formed among Geneva-resident negotiators. It is questionable whether individual negotiators in subsequent years have had as much freedom to act as did those in the Uruguay Round, given both the greater dominance of capital-based officials and the emergence of various groupings of countries as WTO membership has expanded.

Endnotes

- 1 The following comment is typical: "It was not the task of the Group or of the GATT to create an international system for the production [sic – presumably 'protection'] of intellectual property parallel to that existing in WIPO and elsewhere. If countries considered the international protection under that system inadequate, they had full opportunities to raise the matter in the appropriate fora." GATT document MTN.GNG/NG11/8, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods – Meeting of 5-8 July 1988 – Note by the Secretariat, 29 August 1988, para. 30.
- 2 GATT document MTN.GNG/NG11/10, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods – Meeting of 17-21 October 1988 – Note by the Secretariat, 30 November 1988, para. 27.
- 3 GATT document MTN.GNG/NG11/13, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods – Meeting of 3-4 July 1989 – Note by the Secretariat, 16 August 1989, para. 4.
- 4 The Chair considered the latter term more accurate, but it did not supplant the first one. GATT document MTN.GNG/TRIPS/2, Uruguay Round – Group of Negotiations on Goods (GATT) – Negotiating Group on Trade-related Aspects of Intellectual Property Rights Including Trade in Counterfeit Goods – Meeting of Negotiating Group of 16 and 20 September 1991 – Note by the Secretariat, 7 October 1991, para. 8.
- 5 See, for example, GATT document MTN.GNG/NG11/4, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods – Meeting of 28 October 1987 – Note by the Secretariat, 17 November 1987, para. 20.
- 6 GATT document MTN.GNG/NG11/W/14, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods – Suggestion by the United States for Achieving the Negotiating Objective, 20 October 1987.
- 7 GATT document MTN.GNG/NG11/4, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods – Meeting of 28 October 1987 – Note by the Secretariat, para. 20.
- 8 Ibid.
- 9 GATT document MTN.GNG/NG11/W/49, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods – Trade-Related Aspects of Intellectual Property Rights – Submission from the European Communities, 14 November 1989, section B.d.
- 10 GATT document MTN.GNG/NG11/17, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods – Meeting of 11, 12 and 14 December 1989 – Note by the Secretariat, 23 January 1990.
- 11 GATT document MTN.TNC/11, Uruguay Round – Trade Negotiations Committee – Mid-Term Meeting – [Held in Montreal on 5-9 December 1988 and in Geneva on 5-8 April 1989], 21 April 1989.
- 12 Ibid.

- 13 GATT document MTN.GNG/NG11/W/61, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods – Communication from Chile, 22 January 1990.
- 14 GATT document MTN.GNG/NG11/17, para. 11.
- 15 Personal communication, Adrian Otten.
- 16 GATT document MTN.TNC/W/35/Rev.1, Uruguay Round – Trade Negotiations Committee – Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations – Revision, 3 December 1990, page 230.
- 17 Article 64 para. 2 of the TRIPS Agreement.
- 18 See Article 64 para. 3 of the TRIPS Agreement.
- 19 DS27– European Communities – Regime for the Importation, Sale and Distribution of Bananas; DS267 – United States – Subsidies on Upland Cotton; DS285 – United States – Measures Affecting the Cross-Border Supply of Gambling and Betting Services.
- 20 WTO document WT/DS27/ARB/ECU, European Communities – Regime for the Importation, Sale and Distribution of Bananas – Recourse to Arbitration by the European Communities under Article 22.6 of the DSU – Decision by the Arbitrators, 24 March 2000.
- 21 Catherine Saez, "WTO ruling on Brazil-US cotton opens door to cross-retaliation against IP rights", Intellectual Property Watch, www.ip-watch.org/2009/09/07/wto-ruling-on-brazil-cotton-opens-door-to-cross-retaliation-against-ip-rights/ (last accessed 11 April 2015).