

**EUROPEAN COMMUNITIES – PROTECTION OF  
TRADEMARKS AND GEOGRAPHICAL INDICATIONS FOR  
AGRICULTURAL PRODUCTS AND FOODSTUFFS**

Complaint by the United States

*Report of the Panel*



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Short Title	Full Case Title and Citation
<i>Argentina – Footwear(EC)</i>	Appellate Body Report, <i>Argentina – Safeguard Measures on Imports of Footwear</i> , WT/DS121/AB/R, adopted 12 January 2000, DSR 2000:I, 515
<i>Australia – Salmon</i>	Appellate Body Report, <i>Australia – Measures Affecting Importation of Salmon</i> , WT/DS18/AB/R, adopted 6 November 1998, DSR 1998:VIII, 3327
<i>Belgium – Family Allowances</i>	GATT Panel Report, <i>Income Tax Practices Maintained by Belgium</i> , adopted 7 December 1981, BISD 23S/127 and 28S/114
<i>Brazil – Aircraft</i>	Appellate Body Report, <i>Brazil – Export Financing Programme for Aircraft</i> , WT/DS46/AB/R, adopted 20 August 1999, DSR 1999:III, 1161
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<i>Canada – Periodicals</i>	Appellate Body Report, <i>Canada – Certain Measures Concerning Periodicals</i> , WT/DS31/AB/R, adopted 30 July 1997, DSR 1997:I, 449
<i>Canada – Pharmaceutical Patents</i>	Panel Report, <i>Canada – Patent Protection of Pharmaceutical Products</i> , WT/DS114/R, adopted 7 April 2000, DSR 2000:V, 2289
<i>EC – Asbestos</i>	Appellate Body Report, <i>European Communities – Measures Affecting Asbestos and Asbestos-Containing Products</i> , WT/DS135/AB/R, adopted 5 April 2001, DSR 2001:VII, 3243
<i>EC – Bananas III</i>	Appellate Body Report, <i>European Communities – Regime for the Importation, Sale and Distribution of Bananas</i> , WT/DS27/AB/R, adopted 25 September 1997, DSR 1997:II, 591
<i>EC – Bananas III (US)</i>	Panel Report, <i>European Communities – Regime for the Importation, Sale and Distribution of Bananas – Complaint by the United States</i> , WT/DS27/R/USA, adopted 25 September 1997, as modified by the Appellate Body Report, WT/DS27/AB/R, DSR 1997:II, 943
<i>EC – Hormones</i>	Appellate Body Report, <i>EC Measures Concerning Meat and Meat Products (Hormones)</i> , WT/DS26/AB/R, WT/DS48/AB/R, adopted 13 February 1998, DSR 1998:I, 135
<i>EC – Sardines</i>	Appellate Body Report, <i>European Communities – Trade Description of Sardines</i> , WT/DS231/AB/R, adopted 23 October 2002
<i>EC – Tariff Preferences</i>	Appellate Body Report, <i>European Communities – Conditions for the Granting of Tariff Preferences to Developing Countries</i> , WT/DS246/AB/R, adopted 20 April 2004.
<i>EEC – Parts and Components</i>	GATT Panel Report, <i>European Economic Community – Regulation on Imports of Parts and Components</i> , adopted 16 May 1990, BISD 37S/132
<i>India – Patents (US)</i>	Appellate Body Report, <i>India – Patent Protection for Pharmaceutical and Agricultural Chemical Products</i> , WT/DS50/AB/R, adopted 16 January 1998, DSR 1998:I, 9
<i>India – Patents (US)</i>	Panel Report, <i>India – Patent Protection for Pharmaceutical and Agricultural Chemical Products – Complaint by the United States</i> , WT/DS50/R, adopted 16 January 1998, as modified by the Appellate Body Report, WT/DS50/AB/R, DSR 1998:I, 41
<i>India – Patents (EC)</i>	Panel Report, <i>India – Patent Protection for Pharmaceutical and Agricultural Chemical Products – Complaint by the European Communities</i> , WT/DS79/R, adopted 22 September 1998, DSR 1998:VI, 2661
<i>Indonesia – Autos</i>	Panel Report, <i>Indonesia – Certain Measures Affecting the Automobile Industry</i> , WT/DS54/R, WT/DS55/R, WT/DS59/R, WT/DS64/R and Corr.1, 2, 3, and 4, adopted 23 July 1998, DSR 1998:VI, 2201
<i>Japan – Alcoholic Beverages II</i>	Appellate Body Report, <i>Japan – Taxes on Alcoholic Beverages</i> , WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R, adopted 1 November 1996, DSR 1996:I, 97
<i>Korea – Dairy</i>	Appellate Body Report, <i>Korea – Definitive Safeguard Measure on Imports of Certain Dairy Products</i> , WT/DS98/AB/R, adopted 12 January 2000, DSR 2000:I, 3



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<i>Korea – Various Measures on Beef</i>	Appellate Body Report, <i>Korea – Measures Affecting Imports of Fresh, Chilled and Frozen Beef</i> , WT/DS161/AB/R, WT/DS169/AB/R, adopted 10 January 2001, DSR 2001:I, 5
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<i>Thailand – H-Beams</i>	Appellate Body Report, <i>Thailand – Anti-Dumping Duties on Angles, Shapes and Sections of Iron or Non-Alloy Steel and H-Beams from Poland</i> , WT/DS122/AB/R, adopted 5 April 2001, DSR 2001:VII, 2701
<i>Turkey – Textiles</i>	Panel Report, <i>Turkey – Restrictions on Imports of Textile and Clothing Products</i> , WT/DS34/R, adopted 19 November 1999, as modified by the Appellate Body Report, WT/DS34/AB/R, DSR 1999:VI, 2363
<i>US – 1916 Act</i>	Appellate Body Report, <i>United States – Anti-Dumping Act of 1916</i> , WT/DS136/AB/R, WT/DS162/AB/R, adopted 26 September 2000, DSR 2000:X, 4793
<i>US – Carbon Steel</i>	Appellate Body Report, <i>United States – Countervailing Duties on Certain Corrosion-Resistant Carbon Steel Flat Products from Germany</i> , WT/DS213/AB/R and Corr.1, adopted 19 December 2002
<i>US – Certain EC Products</i>	Appellate Body Report, <i>United States – Import Measures on Certain Products from the European Communities</i> , WT/DS165/AB/R, adopted 10 January 2001, DSR 2001:I, 373
<i>US – Corrosion-Resistant Steel Sunset Review</i>	Appellate Body Report, <i>United States – Sunset Review of Anti-Dumping Duties on Corrosion-Resistant Carbon Steel Flat Products from Japan</i> , WT/DS244/AB/R, adopted 9 January 2004
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<i>US – Section 301 Trade Act</i>	Panel Report, <i>United States – Sections 301-310 of the Trade Act of 1974</i> , WT/DS152/R, adopted 27 January 2000, DSR 2000:II, 815
<i>US – Section 337</i>	GATT Panel Report, <i>United States Section 337 of the Tariff Act of 1930</i> , adopted 7 November 1989, BISD 36S/345
<i>US – Tobacco</i>	GATT Panel Report, <i>United States Measures Affecting the Importation, Internal Sale and Use of Tobacco</i> , adopted 4 October 1994, BISD 41S/I/131



## I. INTRODUCTION

1.1 On 1 June 1999, the United States requested consultations<sup>1</sup> with the European Communities pursuant to Article 4 of the Understanding on Rules and Procedures Governing the Settlement of Disputes ("DSU") and Article 64 of the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement") (to the extent that it incorporates by reference Article XXIII of the General Agreement on Tariffs and Trade 1994 ("GATT 1994") regarding EC Council Regulation (EEC) No. 2081/92 of 14 July 1992 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs, as amended. The United States and the European Communities held consultations on 9 July 1999, and thereafter, but these consultations failed to resolve the dispute.

1.2 On 4 April 2003, the United States supplemented its earlier request with a request for additional consultations<sup>2</sup> with the European Communities pursuant to Article 4 of the DSU, Article 64 of the TRIPS Agreement and Article XXII of the GATT 1994, regarding the protection of trademarks and geographical indications for agricultural products and foodstuffs in the European Communities pursuant to Regulation 2081/92, as amended, and its related implementing and enforcement measures ("Regulation 2081/92"). The United States and the European Communities held consultations pursuant to this supplemental request on 27 May 2003, but these consultations also failed to resolve the dispute.

1.3 On 18 August 2003, the United States requested the Dispute Settlement Body ("DSB") to establish a panel with standard terms of reference as set out in Article 7.1 of the DSU.<sup>3</sup> At its meeting on 2 October 2003, the DSB established a single Panel pursuant to the requests of the United States in document WT/DS174/20 and Australia in document WT/DS290/18, in accordance with Article 9 of the DSU (WT/DSB/M/156)<sup>4</sup>. At that meeting, the parties to the dispute also agreed that the Panel should have standard terms of reference. The terms of reference are, therefore, the following:

"To examine, in the light of the relevant provisions of the covered agreements cited by the United States in document WT/DS174/20 and Australia in document WT/DS290/18, the matter referred to the DSB by the United States and Australia in those documents, and to make such findings as will assist the DSB in making the recommendations or in giving the rulings provided for in those agreements."

1.4 On 13 February 2004, the United States and Australia requested the Director-General to determine the composition of the Panel, pursuant to paragraph 7 of Article 8 of the DSU.

1.5 On 23 February 2004, the Director-General accordingly composed the Panel as follows:

Chair: Mr Miguel Rodríguez Mendoza

Members: Prof. Seung Wha Chang  
Mr Peter Kam-fai Cheung

1.6 Argentina, Australia (in respect of the United States' complaint), Brazil, Canada, China, Colombia, Guatemala, India, Mexico, New Zealand, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (hereinafter referred to as "Chinese Taipei"), Turkey and the

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<sup>1</sup> WT/DS174/1.

<sup>2</sup> WT/DS174/1/Add.1.

<sup>3</sup> WT/DS174/20.

<sup>4</sup> WT/DS174/21 and Corr.1.

United States (in respect of Australia's complaint) reserved their rights to participate in the Panel proceedings as third parties.

1.7 The Panel met with the parties on 23-24 June 2004 and on 11-12 August 2004. It met with the third parties on 24 June 2004.

1.8 The Panel submitted its interim report to the parties on 16 November 2004. The Panel submitted its final report to the parties on 21 December 2004.

## **II. FACTUAL ASPECTS**

### **A. MEASURES AT ISSUE**

2.1 The measures at issue in this dispute are identified in the United States' request for establishment of a panel as Council Regulation (EEC) No. 2081/92 of 14 July 1992 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs, as amended, and its related implementing and enforcement measures.

### **B. PROCEDURAL HISTORY**

#### **1. Preliminary ruling prior to the first written submissions**

2.2 On 24 February 2004, the day after the Panel was composed and prior to the organizational meeting, the European Communities requested that the Panel issue a preliminary ruling that the United States' and Australia's respective requests for establishment of a panel were inconsistent with the requirements of Article 6.2 of the DSU. The European Communities considered it appropriate that the Panel issue a preliminary ruling before the first written submissions of the parties were due.

2.3 At the organizational meeting, the Panel sought the parties' views on appropriate procedures to deal with this request. The complainants did not object to filing written responses to the request for a preliminary ruling prior to their first written submissions but requested additional time for the filing of their first written submissions.

2.4 On 8 March 2004, the Panel adopted its working procedures and timetable, which indicated a date for the United States and Australia to file written responses to the European Communities' request for a preliminary ruling. They submitted their responses accordingly.

2.5 On 5 April 2004, the Panel issued a preliminary ruling, which is set out in full in Section VII:A of this report.

2.6 On 20 April 2004, the European Communities sent a letter to the Panel expressing its regret at the Panel's ruling and "reserving its right to raise issues of law regarding the interpretation of Article 6.2 of the DSU before the Appellate Body". In its letter, the European Communities asked the Panel to clarify the status of its preliminary ruling of 5 April 2004, in particular whether such ruling would be incorporated into the Panel's final reports and whether the findings contained in the ruling would be an integral part of the final reports.

2.7 On 23 April 2004, the Panel responded to the European Communities, advising that its preliminary ruling would be reflected in the Panel's final reports, as appropriate.

2.8 On 26 April 2004, the European Communities sent a second letter to the Panel indicating that it had understood from the Panel's previous response that the findings contained in the preliminary

ruling of 5 April 2004 would be incorporated into the Panel's final reports and could, therefore, be appealed in the same way as any legal interpretation contained in these reports.

2.9 On 28 April 2004, the Panel responded again to the European Communities, advising that it had taken note of the European Communities' letter of 26 April 2004 and reiterating that its preliminary ruling would be reflected in its final reports, as appropriate.

## **2. Request for extension of time**

2.10 On 9 March 2004, the European Communities requested that the Panel extend the period for it to submit its first written submission in view of the circumstances that (a) there were two cases brought by two complainants; (b) these cases did not appear to contain identical claims; and (c) these cases raised new and complex issues and involved a large number of claims. It also alleged that the timetable was unbalanced in favour of the complainants.

2.11 On 16 March 2004, the United States and Australia each responded to the European Communities' request, disagreeing with its assertions but not objecting to an extension of the period for the European Communities to submit its first written submission, provided that such extension would not affect the timeframe structure of the remainder of the timetable.

2.12 On 22 March 2004, the Panel revised its timetable, extending the time for the submission of the respondent's first written submission, without affecting the time between any of the subsequent steps as established in the original timetable.

## **3. Request for separate reports**

2.13 On 3 March 2004, after the conclusion of the Panel's organizational meeting, the European Communities filed a request pursuant to Article 9.2 of the DSU that the Panel submit separate reports on the present dispute. On 8 March 2004 the Panel acknowledged receipt of such request. The complainants did not comment on this request.

2.14 On 23 April 2004, the Panel informed the parties that it would submit separate reports on this dispute, as requested by the European Communities.

2.15 At the second substantive meeting with the parties on 11-12 August 2004, the Panel invited the parties to comment on the way in which the Panel should submit separate reports. The Panel took note of the parties' views and confirmed the following facts: (a) the complainants have made similar, but not identical claims in this dispute; (b) the complainants have made separate written submissions and separate oral statements and submitted separate responses to questions, although they did submit 16 common exhibits with their respective first written submissions; (c) the complainants have not collectively endorsed the arguments made in one another's submissions although Australia, in its first oral statement, expressly endorsed certain comments made by the United States<sup>5</sup>, and the United States, on occasions, cited information and arguments submitted by Australia in support of its arguments; and (d) although each complainant reserved its right to participate in the Panel proceedings as a third party in respect of the other's complaint, they did not exercise these rights. They both declined the opportunity given to them by the Panel to make a statement as a third party during the session with the third parties.

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<sup>5</sup> Australia also purported to endorse all arguments put forward by the United States in its closing statement at the second substantive meeting. This is considered in Section VII:A of the report on Australia's complaint (WT/DS290/R).

#### **4. Request for factual information from the International Bureau of WIPO**

2.16 On 9 July 2004, the Panel sent a letter to the International Bureau of WIPO requesting its assistance in the form of any factual information available to it relevant to the interpretation of certain provisions of the Paris Convention for the Protection of Industrial Property.<sup>6</sup> The parties were given the opportunity to comment.

2.17 The International Bureau's reply was received by the Panel and the WTO Secretariat on 14 September 2004. The Panel gave the parties an opportunity to submit comments on the reply by 28 September 2004. The parties submitted their comments accordingly.<sup>7</sup>

2.18 The factual information provided by the International Bureau consists of a note it prepared and five annexes containing excerpts from the Official Records of the various Diplomatic Conferences which adopted, amended or revised the provisions currently contained in Articles 2 and 3 of the Paris Convention (Stockholm Act of 1967)<sup>8</sup>.

### **III. PARTIES' REQUESTS FOR FINDINGS AND RECOMMENDATIONS**

#### **A. UNITED STATES**

3.1 The United States requests that the Panel find that the measures at issue are inconsistent with the European Communities' obligations under:

- (a) Articles 1.1, 3.1, 4, 16.1, 22.2, 41.1, 41.2, 41.4, 42, 44.1 and 65.1 of the TRIPS Agreement and, through its incorporation by Article 2.1 of the TRIPS Agreement, Article 2 of the Paris Convention (1967); and
- (b) Articles I:1 and III:4 of GATT 1994.

3.2 The United States requests that the Panel recommend that the European Communities bring its measures into conformity with its obligations under the TRIPS Agreement and GATT 1994.

#### **B. EUROPEAN COMMUNITIES**

3.3 The European Communities requests that the Panel:

- (a) find that certain measures not yet adopted at the time the Panel was established, and the United States' claim under Article 2(2) of the Paris Convention (incorporated by Article 2.1 of the TRIPS Agreement), are outside the Panel's terms of reference; and
- (b) reject all claims within the Panel's terms of reference.

### **IV. ARGUMENTS OF THE PARTIES**

4.1 The arguments of the European Communities and the United States, as set out in their respective submissions (European Communities' request for a preliminary ruling, United States response to the European Communities' request for a preliminary ruling, first written submissions, written rebuttals, oral statements, responses to questions; comments on each other's responses; and comments on the factual information from the International Bureau of WIPO), are attached as Annexes A and B.

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<sup>6</sup> Attached as Annex D-2 to this report.

<sup>7</sup> The submissions are attached to this report as Annexes A-10 and B-10.

<sup>8</sup> The International Bureau's Note, but not its annexes, are attached as Annex D-3 to this report.

## V. ARGUMENTS OF THE THIRD PARTIES

5.1 The arguments of those third parties that made submissions to the Panel (first written submissions, oral statements and/or responses to questions) are summarized and attached as Annex C.

## VI. INTERIM REVIEW

6.1 On 16 November 2004, the Panel submitted its interim report to the parties. On 30 November 2004, the United States and the European Communities submitted written requests for review of precise aspects of the interim report. On 7 December 2004, the United States and the European Communities submitted written comments on each other's request for interim review.

6.2 The Panel has modified aspects of its report in light of the parties' comments where it considered appropriate, as explained below. The Panel has also made certain revisions and technical corrections for the purposes of clarity and accuracy. References to paragraph numbers and footnotes in this Section VI refer to those in the interim report, except as otherwise noted.

### Incorporation of arguments by co-complainant

6.3 The **United States** requests that the interim report reflect the fact that the United States incorporated information and arguments put forward by Australia with respect to the issue whether the conditions of equivalence and reciprocity apply to WTO Members, citing two references in its submissions and paragraph 2.15.

6.4 The Panel has noted these two particular references in footnote 73 and also corrected paragraph 2.15 of the final report.

### Further comments on preliminary ruling

6.5 The **European Communities** requests the deletion of paragraphs 7.3 to 7.8 as the conformity of a panel request with Article 6.2 of the DSU must be evaluated on the face of the panel request. In its view, references to discussions that take place in other fora, like those in the Council for TRIPS, are irrelevant for this purpose. The same reasoning applies to the letter from Commissioner Lamy to the USTR, which was only provided by the United States at the second substantive meeting. If it were of any relevance to Article 6.2, it could have been expected that the United States would have referred to it in its response to the request for a preliminary ruling, but it did not. Moreover, the letter is irrelevant for this question as it did not form part of the dispute settlement process.

6.6 The **United States** opposes this request. It believes that the preliminary ruling of 5 April 2004 stands on its own merits. But it also fails to see on what basis the European Communities objects to the Panel's description of facts confirming that, at the time of the panel request, the European Communities was aware of the legal basis for the panel request and that the summary of the legal basis of the complaint in that request was sufficient to present the problem clearly.

6.7 The Panel recalls that the European Communities made a request for a preliminary ruling the day after the Panel was composed in which it alleged defects in the panel request and submitted that it was appropriate that the Panel issue a preliminary ruling before the first written submissions of the parties were due. The Panel issued a preliminary ruling accordingly, in which it found that those allegations were unfounded on the face of the panel request and on the basis of the facts available to it at that time. That preliminary ruling sets out part of the basic rationale for the Panel's findings and recommendation in this dispute. Accordingly, in the course of making an objective assessment of the facts, the Panel does not disregard probative evidence relevant to that ruling submitted later in the

course of the proceeding, other than the references to what took place during the consultations, which were without prejudice to the rights of the European Communities and other parties in these proceedings, in accordance with Article 4.6 of the DSU. The Panel has modified the relevant paragraphs, numbered 7.3 to 7.13 of the final report, to elaborate on the reasons for their inclusion. The relevance of the letter from Commissioner Lamy is discussed below.

Letter from Commissioner Lamy

6.8 The **European Communities** requests the deletion of paragraph 7.79 as the letter from Commissioner Lamy to the USTR was provided only at the second substantive meeting and "the European Communities has had very little occasion so far to comment on this letter". Moreover, it was written in the context of the Doha Round negotiations and largely addresses questions relating to those negotiations. Even to the extent that it pronounces itself on certain aspects of the Regulation, it does not constitute an authoritative explanation of EC law and therefore does not form a sufficient basis for the Panel's findings regarding the content of the Regulation.

6.9 The **United States** opposes this request. Part of the issue before the Panel was the Commission's interpretation of whether the Regulation imposes equivalence and reciprocity conditions on WTO Members. A direct communication that it does, sent from the EC Trade Commissioner to the US Trade Representative, is plainly relevant. This is particularly true given that the European Communities had denied that its position on the issue had changed from that which it held prior to the dispute. In addition, the Panel cites the letter in a single sentence as further corroboration of a thorough Panel analysis. The United States recalls the European Communities' response to Panel question No. 15 that its own statements to the Panel regarding EC law are not authoritative explanations either so, under the European Communities' reasoning in its request for interim review, the Panel should also consider such statements to be irrelevant.

6.10 The Panel observes that the European Communities has taken the opportunity to comment on the letter in its request for interim review, and the Panel takes note of those comments. A full copy of the letter and its attachment was provided at the second substantive meeting. The European Communities had an opportunity to comment on the letter at that meeting and in its response to question No. 95, which specifically related to "any official statement by the Commission" as well as in its responses to six other questions relevant to the applicability of the equivalence and reciprocity conditions.

6.11 The Panel has already noted in the relevant paragraph that the letter provides further corroboration of the Panel's interpretation, so that it does not form the basis of any findings on its own. The letter is relevant for the following reasons: (a) it is from a member of the European Commission responsible for trade matters to the United States Trade Representative; (b) it states that the attachment contains a detailed analysis that covers certification marks *vis-à-vis* Doha Round issues "as well as a reply to [the USTR's] comments on EC Regulation 2081/92"; (c) the attachment specifically responds to the national treatment claim that is the subject of the Panel's examination in Section VII:B.1 of this report; and (d) it is recent. Therefore, the Panel has retained the paragraph, numbered 7.82 in the final report.

6.12 The Panel has also referred to Commissioner Lamy's letter in paragraph 7.733, as evidence in support of the European Communities' position under Article 22.2 of the TRIPS Agreement. The European Communities did not request review of that paragraph, which is numbered 7.750 in the final report, and the Panel has retained it also.



The phrase "[w]ithout prejudice to international agreements"

6.13 The **European Communities** requests the deletion of paragraphs 7.85 to 7.90 because it did not argue that the application of Article 12 of the Regulation would prejudice "the EC's obligations under the TRIPS Agreement". It quotes paragraph 66 of its first written submission and paragraph 43 of its first oral statement and asserts that "[t]hese statements do not contain any indication that the EC consider that its obligations under the TRIPS Agreement would be prejudiced by the application of Article 12 of Regulation 2081/92. Rather, the reference to the obligation to provide protection for geographical indications was clearly intended as a reference to the obligation of other WTO Members to provide protection. This is also what the EC explained in response to the Panel's Question No. 94(b)." The European Communities agrees that it is true that it did not provide an explicit response to Panel question No. 20 but it asserts that it did, however, address this point in response to Panel question No. 94, in which it clarified that whereas the application of these conditions would not prejudice the European Communities' national treatment obligations under the TRIPS Agreement, it would prejudice its national treatment obligations under the GATT. Given this context, it comments that the Panel is wrong to read into the European Communities' submission a statement which the European Communities clearly did not make, and which contradicts the entire logic of the European Communities' submissions. In its view, by attempting to read admissions into the European Communities' submissions, the Panel effectively distorts these submissions. This is not compatible with the task of the Panel under Article 11 of the DSU, which is to make an objective assessment of the facts. The European Communities also requests the deletion of paragraph 7.200 for the same reason and because it is unnecessary to the legal analysis which precedes it.

6.14 The **United States** expresses surprise and disappointment that the European Communities would suggest that the Panel's assessment of the facts is non-objective, simply because the Panel has noted accurately the inconsistencies in the positions taken by the European Communities over the course of this dispute. The European Communities' sole basis for the deletion of six full paragraphs of Panel analysis is its disagreement with one part of one sentence in paragraph 7.86. The Panel's summary on this point is accurate, objective and fair and therefore the paragraphs should be retained. The United States notes that the European Communities admits that it avoided answering Panel question No. 20 but apparently seeks credit for answering Panel question No. 94. The United States recalls that the Panel has already made note of this response in paragraph 7.88.

6.15 The Panel takes note of the parties' comments and has carefully reviewed the European Communities' submissions, statements and responses to questions in this dispute, and confirms the following facts: (a) the interim report is consistent with the European Communities' own detailed analysis of the phrase "[w]ithout prejudice to international agreements" in its rebuttal submission; and (b) the European Communities repeatedly emphasized the importance of *its own* obligations in the interpretation of the equivalence and reciprocity conditions but there is no clear explanation on the record of this dispute as to how the obligations of *other* WTO Members would render the equivalence and reciprocity conditions under the European Communities' own Regulation inapplicable and the Panel declines to speculate. Therefore, the Panel has expanded and revised, rather than deleted, the relevant paragraphs, numbered 7.89 to 7.96 in the final report, and deleted paragraph 7.200 without affecting the preceding legal analysis.

6.16 The Panel takes note that, although the European Communities has now requested the deletion of most consideration of its own arguments concerning the phrase "[w]ithout prejudice to international agreements", this point is important to its defence and those arguments have not been withdrawn. Therefore, the Panel considers it important to address them as part of its objective assessment of the matter before it, in accordance with its function under Article 11 of the DSU.

Examination of applications for registration

6.17 The **European Communities** requests the amendment of paragraph 7.262(b) to take account of the requirement in Article 12a(2)(a) of the Regulation that a third country must also transmit "a description of the legal provisions and the usage on the basis of which the designation of origin or the geographical indication is protected or established in the country", which is a question of the law of the third country, not Community law. It also comments that paragraph 7.272 should explain how the European Communities can implement Article 24.9 of the TRIPS Agreement with respect to such questions of foreign law, taking into account that the complainants have stated that such questions can be of high complexity and have indicated their unwillingness or inability to cooperate on such issues.

6.18 The **United States** considers that paragraph 7.262 should not be amended. The requirement that the European Communities wants to add is already described in the third step in that paragraph, which sets out the different requirements for third countries. The United States considers that the Panel's logical description would become "muddled" and confusing if part of the third step were collapsed into the second step. The United States also considers that the Panel should decline to offer further recommendations as to how the European Communities should implement Article 24.9 of the TRIPS Agreement as the Panel's task is not to recommend how to implement provisions not part of its terms of reference. The United States also disagrees that it has indicated its unwillingness or inability to cooperate: it has challenged mandatory unilateral requirements, which is not a request for co-operation.

6.19 The Panel takes note of the European Communities' request and notes that the description of protection in the country of origin is already included in paragraph 7.262, numbered 7.268 in the final report, which is the logical place for it. The Panel considers it inappropriate to make further findings in this paragraph. The Panel's findings on transmission of applications already apply to all accompanying documents, including the description of protection in the country of origin. Further, this is an "as such" claim but Article 12a(2)(a) of the Regulation does not specify what form of description of protection in the country of origin would be acceptable, nor is there conclusive evidence on this point. In any event, Article 62 of the TRIPS Agreement would appear to be important in framing any recommendation on implementation, but it lies outside the Panel's terms of reference, as explained in paragraph 7.279 of the final report.

6.20 The Panel has also replaced the word "verification" in relation to applications for registration later in the report in order to be consistent with the use of the word "examination" used in the description of the application procedures and the consideration of the national treatment claim under the TRIPS Agreement. This does not imply that verification in the course of examination of applications is not covered by the Panel's conclusions with respect to examination.

Article XX(d) of GATT 1994

6.21 The **United States** suggested amendments to paragraphs 7.289 and 7.431 for clarity and accuracy concerning the alleged "laws and regulations not inconsistent with this Agreement" within the meaning of Article XX(d) of GATT 1994.

6.22 The **European Communities** responds that part of the drafting suggestion does not correctly represent its arguments and refers to its response to question No. 135(c) from the Panel. It requests that this argument be fully reflected in paragraph 7.289.

6.23 The Panel partly modified the paragraphs, numbered 7.297 and 7.446 in the final report, and reflected the arguments in the European Communities' responses to Panel questions Nos. 135(a), (b), (c) and (d) and addressed those arguments.

Standard for private inspection bodies

6.24 The **United States** suggests the deletion from paragraph 7.405 of the phrase "the standard specified in the Regulation is based on an international standard" because this is a legal conclusion that must be based on a thorough analysis and which can have significant legal consequences, for instance, under Article 2.4 of the TBT Agreement and Article 3.1 of the SPS Agreement.

6.25 The **European Communities** opposes this suggestion because it was entirely appropriate for the Panel to consider whether the Regulation's requirements were based on an international standard, the United States did not make any claim under the TBT Agreement, and the United States never indicated prior to interim review that the ISO/IEC Guide at issue was not a relevant international standard, or that it saw any problems of substance with the content of this Guide.

6.26 The Panel does not take any view on whether the relevant ISO/IEC Guide is an international standard for the purposes of the TBT Agreement or the SPS Agreement and, for the avoidance of doubt, has amended paragraph 7.417 of the final report, based on its factual observations earlier in that sub-section.

Marks of origin

6.27 The **European Communities** requests the deletion of point (b) of paragraph 7.496, with which it does not agree. The use of the words "made in" is not a specific requirement for a mark of origin in Article IX:1 of GATT 1994. It comments that it does not understand what is meant by indication in a pictorial manner nor by indication alongside the GI nor how this is relevant. Given the Panel's findings, it considers it unnecessary to reach a conclusion on this issue.

6.28 The **United States** suggests that paragraph 7.496(b) be retained as it is helpful to the resolution of the dispute for the Panel to summarize why, as a factual matter, an analysis of Article III:4, not Article IX, of GATT 1994 was appropriate.

6.29 The Panel has retained the paragraph, numbered 7.510 in the final report, because it is appropriate to explain why the European Communities' defence concerning marks of origin appears to be irrelevant to the preceding legal analysis. However, it has modified the point.

Right to prevent the use of translations of registered GIs

6.30 The **European Communities** considers that it would be useful to recall in paragraph 7.504, for the sake of completeness, that under Article 13(1)(b) of the Regulation, GI holders do have a negative right to prevent the use of the registered name or names in translation.

6.31 The **United States** opposes this suggestion because paragraph 7.504 addresses the scope of the positive right of the GI holder under the Regulation, not what the GI holder can stop others from doing. Further, the negative right may cover a broad range of activities and is not limited to the use of so-called translations of GIs. With respect to the trademark claim in this dispute, the scope of the third party uses that the GI holder can prevent was never at issue because the European Communities concedes that, under Article 14(2) of the Regulation, the GI holder cannot stop trademark owners from using their valid trademarks in commerce.

6.32 The Panel has added a footnote to the paragraph, numbered 7.518 to clarify the scope of the positive right to use a GI with respect to translations and has also clarified the importance of the fact that a trademark may continue to be used under Article 14(2) of the Regulation. However, the Panel declines to amend the referenced paragraph as requested because the protection granted by Article 13

of the Regulation is already addressed elsewhere and it has not been shown to what extent Article 13(1)(b) covers translations.

Exceptions in trademark legislation with respect to the use of GIs

6.33 The **European Communities** comments that the assertion in paragraph 7.545 to the effect that its trademark legislation provides no exceptions with respect to the use of geographical indications is factually incorrect, and refers to its response to Panel question No. 153 and, specifically, to Article 6.1(b) of the First Trademark Directive and Article 12(b) of the Community Trademark Regulation. Therefore, even where a trademark owner is allowed under the GI Regulation to enforce his rights under the First Trademark Directive or the Community Trademark Regulation with respect to the confusing use of a registered GI, he cannot prevent such use if it is "in accordance with honest practices in industrial or commercial matters".

6.34 The **United States** responds that the Panel's point is that the exception in the trademark legislation may be narrower than that in the GI Regulation. It considers that the Panel's meaning is clear and that any possible ambiguity might be removed by adding the word "unqualified" before exception. It also comments that the European Communities asserted before the Panel that the trademark owners cannot prevent GI holders from using a registered GI on the grounds that the use of the name is confusing *per se*.

6.35 The Panel takes note of the factual correction and has deleted the paragraph.

Scope of a limited exception for GIs in translation

6.36 The **European Communities** suggests a redraft of paragraph 7.645 for the following reasons: (a) lest it imply that the European Communities agrees with the last sentence of paragraph 7.643; (b) in order to include all the relevant limitations to the exception in Article 14(2) of the Regulation relied upon by the Panel including "what is undoubtedly the most crucial one, namely that the trademark owner maintains the right to prevent any confusing uses by all parties except the GI holders"; and (c) because a registration under the Regulation may specify more than one linguistic version of the geographical indication and the last part of the second sentence of paragraph 7.645 may suggest otherwise.

6.37 The **United States** opposes the suggestion which it considers a significant redrafting of the Panel's factual conclusions as to the meaning of Article 14(2) of the Regulation. In its view, the European Communities' arguments are baseless and appear to represent an attempt to back away from factual findings that the European Communities itself repeatedly encouraged the Panel to make, as it asks the Panel to purge all references from paragraph 7.645 regarding translations of registered GIs. The United States provides some illustrative references of the European Communities' representations during the panel proceeding and suggests that the Panel consider repeating citations to them to avoid any misunderstandings. The United States considers that (a) paragraph 7.645 does not imply that the European Communities agrees with paragraph 7.643; (b) there is no legitimate purpose served by replacing a summary of the issue of curtailment of the right against all signs (removing references to translations) with a summary of the issue of curtailment of the right against all third parties, which has already been summarized at paragraph 7.642; and (c) it is clear that paragraph 7.645 addresses names "rendered differently in another language" from the name registered, and not names in other languages that are registered.

6.38 The Panel has taken careful note of the parties' comments and has amended the paragraph, numbered 7.659 in the final report, to track more closely the wording of the explanations in the European Communities' own submissions, and then made a finding on the basis of the terms of the legislation and those explanations. It has also added references in the succeeding paragraph and

elsewhere to the limitation provided by certain directives which the European Communities explained during the proceeding.

### Conclusions

6.39 The **European Communities** requests that the Panel reflect in its conclusions its rejection of the US claim that the requirement of inspection structures as such constitutes a violation of national treatment obligations under the TRIPS Agreement and GATT 1994.

6.40 The **United States** opposes this request as the report does not contain a separate finding rejecting any claim that an inspection structure requirement "as such" violates national treatment obligations. No purpose is served by repeating reasoning that the Panel did not find persuasive.

6.41 The Panel has clarified that its findings that the United States did not make a prima facie case with respect to certain aspects of the inspection structures and has reflected this in its conclusions in paragraph 8.1. The Panel has also explained its reasons for exercising judicial economy in relation to Article 2(1) of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement, reflected this in its conclusions in paragraph 8.1, and reflected all conclusions under that provision. The Panel has also added its conclusions from Section A of the findings to paragraph 8.1.

### Suggestion by the Panel on a way to implement its recommendation

6.42 The **United States** suggests that the Panel refrain from making a suggestion in paragraph 8.5 as to a way to implement the recommendation because (a) the European Communities is in a better position than either the Panel or the United States to determine the most appropriate way to implement the recommendations in the report; and (b) the simple clarification suggested by the Panel is not enough because, as the Panel correctly found (at paragraphs numbered 7.84 to 7.86 in the final report), the Regulation does not appear to have any procedures for the registration of GIs from WTO Members that do not satisfy the equivalence and reciprocity conditions.

6.43 The **European Communities** is surprised by the United States' suggestion as the United States had informed the Panel that it "would welcome any objective clarification" that these conditions do not apply, (as noted at paragraph 7.39 in the final report). The European Communities remarks that if the Regulation is clarified in the sense suggested by the Panel, this would necessarily also include a clarification that the appropriate procedures are available for the registration of geographical indications from other WTO Members. For these reasons, the European Communities requests that paragraph 8.5 not be deleted.

6.44 The Panel has modified its suggestion in paragraph 8.5 but, on the basis of the European Communities' remarks on interim review, considers it helpful to retain it.

### Other requests for review

6.45 The **United States** also requests modifications to paragraphs 7.28, 7.71, 7.72, 7.125, 7.400, 7.559 and 7.596 and footnotes 100 and 479 and makes some clerical observations. It suggests the addition of a general statement that where a party elaborates on a statement in later submission or answers to questions that citations to a submission are meant to be illustrative and not exhaustive. The Panel has modified its report accordingly.

6.46 The **European Communities** also requests the modification of paragraphs 7.407, 7.712 and 8.1. The Panel has modified those paragraphs and paragraphs 7.696 and 7.697 accordingly.

## VII. FINDINGS

### A. PRELIMINARY ISSUES

#### 1. Consistency of panel requests with Article 6.2 of the DSU

7.1 On 24 February 2004, the day after the Panel was composed and prior to the organizational meeting, the European Communities submitted a detailed request that the Panel issue a preliminary ruling that the United States' and Australia's respective requests for establishment of a panel were inconsistent with the requirements of Article 6.2 of the DSU. In accordance with the Panel's timetable, the United States and Australia submitted responses to the European Communities' request for a preliminary ruling.

7.2 On 5 April 2004, the Panel issued the following preliminary ruling.<sup>9</sup>

##### (a) Introduction

1. The European Communities is of the view that the requests for establishment of a panel in this matter do not meet the requirements of Article 6.2 of the DSU. It has requested that the Panel issue a preliminary ruling regarding this question.<sup>10</sup>

2. The United States is of the view that the European Communities' arguments in support of its request for a preliminary ruling that the United States' panel request does not meet the requirements of Article 6.2 of the DSU are without merit. It submits that the Panel should reject that request.<sup>11</sup>

(...)<sup>12</sup>

4. Article 6.2 of the DSU provides as follows:

"2. The request for the establishment of a panel shall be made in writing. It shall indicate whether consultations were held, identify the specific measures at issue and provide a brief summary of the legal basis of the complaint sufficient to present the problem clearly. In case the applicant requests the establishment of a panel with other than standard terms of reference, the written request shall include the proposed text of special terms of reference."

5. The European Communities alleges that the requests for establishment of a panel are inconsistent with the following requirements in Article 6.2:

- (a) they fail to identify the specific measure at issue; and
- (b) they do not provide a brief summary of the legal basis of the complaint sufficient to present the problem clearly.

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<sup>9</sup> The preliminary ruling is reproduced with minor editorial changes.

<sup>10</sup> (*footnote original*) European Communities' request for a preliminary ruling dated 24 February 2004 ("EC request"), paras. 1, 2, 3 and 5. [Note: that request is attached as Annex B-1 to this final report]

<sup>11</sup> (*footnote original*) United States' response to EC request, dated 15 March 2004 ("US response"), para. 47. [Note: that response is attached as Annex A-1 to this final report]

<sup>12</sup> Note: paragraph 3 of the preliminary ruling dealt with Australia's request for establishment of a panel.

6. The Panel will examine each of the requests for establishment of a panel as a whole on its face in the light of the parties' respective communications to the Panel to date and the relevant provisions of the covered agreements to assess its compliance with each of these requirements in the sections below.<sup>13</sup>

(b) United States' request for establishment of a panel<sup>14</sup>

(i). *Identification of the specific measure at issue*

7. The United States' request, in its first paragraph, refers to the following measure:

"EC Council Regulation (EEC) No 2081/92 of 14 July 1992 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs, as amended".

8. The United States' request, in its second paragraph, identifies the following measures at issue:

"Regulation 2081/92, as amended, and its related implementing and enforcement measures ('Regulation 2081/92')".

Council Regulation (EEC) No. 2081/92, as amended

9. The United States' request identifies a particular regulation by the name of the authority which adopted it, by its number, by its date of adoption and by its full title. It includes amendments of this regulation. This is a specific measure,<sup>15</sup> and the request has identified it. There is no doubt as to which specific measure is in issue, as the European Communities has itself demonstrated by annexing a consolidated text of the regulation to the request for a preliminary ruling.<sup>16</sup>

10. The European Communities argues that:

"The unspecific reference to Regulation 2081/92 made in the Panel requests does not permit the EC to understand *which specific aspects among those covered by Regulation 2081/92* the complainants intend to raise in the context of the present proceedings." (italics added)

11. The Panel considers the ordinary meaning of the terms of the text in Article 6.2 of the DSU, read in their context and in the light of the object and purpose of the provision, to be quite clear. They require that a request for establishment of a panel "identify the specific

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<sup>13</sup> (footnote original) This is consistent with the approach of the Appellate Body in *US – Carbon Steel* at para. 127 of its report.

<sup>14</sup> (footnote original) Document WT/DS174/20.

<sup>15</sup> (footnote original) In this respect, the Panel notes that the Appellate Body in *EC – Bananas III* (at para. 140 of its report) agreed with the Panel in that case that similar language in the following extract from a panel request sufficiently identified the specific measure at issue in accordance with Article 6.2 of the DSU: "a regime for the importation, sale and distribution of bananas established by Regulation 404/93 [...], and subsequent EC legislation, regulations and administrative measures, including those reflecting the provisions of the Framework Agreement on bananas, which implement, supplement and amend that regime".

<sup>16</sup> (footnote original) Exhibit EC-1 annexed to EC request, *supra* at 10. A list containing the names, numbers and dates of the amendments reflected in the consolidated text of the regulation can be found on page 1 of that document.

measures at issue". They do not require the identification of the "specific aspects" of these "specific measures."

"its related implementing and enforcement measures"

12. The United States' request identifies, in addition to the regulation as amended, "its related implementing and enforcement measures". The European Communities asserts that this phrase does not appear in the United States' request.<sup>17</sup> The Panel draws the European Communities' attention to the definition of "Regulation 2081/92" in the second paragraph of the request.<sup>18</sup> This phrase, as used in the United States' request, expressly refers to measures which implement and enforce Regulation (EEC) No. 2081/92, as amended. The word "related" is not used in isolation in the request.

13. The Regulation as amended itself expressly provides for the taking of particular types of decisions and actions and the adoption of rules of procedure for applying the Regulation. For example, Article 6 provides for the Commission to verify that registration applications include all the requisite particulars and, if it concludes that the name qualifies for protection, to publish certain details and, if no objection is notified, the name is entered in a register or, if the Commission concludes that the name does not qualify for protection, to decide not to proceed with the publication. Article 11a provides that the Commission may cancel the registration of a name. Article 12 provides for decisions by the Commission as to whether a third country satisfies the equivalence conditions and offers the requisite guarantees. Article 12b provides for the Commission, if it concludes that a name the subject of a registration request sent by a third country satisfies the conditions for protection, to publish certain details or, if it concludes that the name does not satisfy the conditions for protection, to decide not to proceed with publication. Article 16 provides for detailed rules for applying the Regulation to be adopted.<sup>19</sup> Those decisions, actions and rules, among others, implement the Regulation. The European Communities has indicated that the competent judicial and executive authorities enforce the Regulation.<sup>20</sup> In the Panel's view, this does not imply that there is any uncertainty as to which measures taken by those authorities implement and enforce the Regulation and which do not. All of the Regulation's implementing and enforcement measures form a group of specific measures which, although they may be a large group, are identified by the United States' request for establishment of a panel.<sup>21</sup>

14. For these reasons, on the basis of the facts available to us, the Panel rules that the United States' request for establishment of a panel did not fail to identify the specific measures at issue in accordance with Article 6.2 of the DSU.

(ii) *A brief summary of the legal basis of the complaint sufficient to present the problem clearly*

Preliminary remarks

15. The United States' request, in its third paragraph, sets out in narrative form alleged inconsistencies with the covered agreements, by quoting or paraphrasing the text of certain provisions of the covered agreements. The fourth paragraph begins with the words "Regulation 2081/92 appears to be inconsistent with:" and then sets out provisions of the

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<sup>17</sup> (footnote original) EC request, *supra* at 10, para. 24, fn. 10.

<sup>18</sup> (footnote original) Quoted above at para. 8.

<sup>19</sup> (footnote original) Exhibit EC-1.

<sup>20</sup> (footnote original) EC request, *supra* at 10, para. 30.

<sup>21</sup> (footnote original) See *supra* at 15.



covered agreements by number with which the United States alleges that the measures at issue are inconsistent.

16. It is clear on a plain reading of the request that the series of numbered provisions is not to be limited to what appears in the narrative text. The narrative text quotes or paraphrases some of these provisions which, in the Panel's view, illustrates and clarifies the alleged violations. In this regard, the Panel notes that the European Communities has conceded that it recognizes in the narrative text the treaty language of Articles 3 and 4 of the TRIPS Agreement and Articles I:1 and III:4 of the GATT 1994.<sup>22</sup>

17. The series of numbered provisions identifies every article of every covered agreement at issue and, where there are paragraphs within an article, it identifies every paragraph by number (with the exception of Article 2 of the Paris Convention, as incorporated by Article 2.1 of the TRIPS Agreement, and Article I of the GATT 1994).

#### Individual analyses

18. The Panel considers that the mere listing of provisions of the relevant covered agreements may not satisfy the standard of Article 6.2 of the DSU, for instance, where the listed provisions establish multiple obligations rather than one single, distinct obligation.<sup>23</sup> However, where the multiple obligations are closely related and interlinked, a reference to a common obligation in the specific listed provisions should be sufficient to meet the standard of Article 6.2 of the DSU under certain circumstances in a particular case.<sup>24</sup>

19. With these considerations in mind, the Panel now examines individual claims related to each provision listed by the United States in its request for establishment of a panel. The Panel notes that Articles 1.1, 2.1 (incorporating by reference Article 2 of the Paris Convention (1967)), 3.1, 4, 16.1, 20, 24.5, 41.4, 44.1, 63.1, 63.3 and 65.1 of the TRIPS Agreement and Article III:4 of the GATT 1994, which were enumerated in the United States' request, each contains either a single obligation or very closely related obligations. In addition, the Panel notes the following:

- (a) Article 22.1 of the TRIPS Agreement does not set out an obligation but rather a definition of a term which is used in other provisions set out in the United States' request. The reference to Article 22.1 and the corresponding narrative text in the request actually presents the problem more, rather than less, clearly because they explain that the United States will challenge the measures at issue under the relevant obligations on the basis of an alleged inconsistency with this definition;
- (b) Article 22.2 of the TRIPS Agreement contains an obligation regarding the use of a geographical indication in two circumstances, but the narrative text paraphrases the first one from Article 22.2(a). This clarifies that the obligation in this circumstance is the subject of a claim;
- (c) Article 41.1 of the TRIPS Agreement contains a general obligation which relates, on its face, to "enforcement procedures as specified in [Part III]". Several of those enforcement procedures are raised in the United States' request, namely those under Articles 41.2, 41.4, 42 and 44.1. This clarifies that the general obligation is the

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<sup>22</sup> (footnote original) EC request, *supra* at 10, paras. 44 and 45.

<sup>23</sup> (footnote original) See the Appellate Body report on *Korea – Dairy*, para. 124.

<sup>24</sup> (footnote original) See the Appellate Body report on *Thailand – H-Beams*, para. 93.

subject of a claim in relation to these procedures. The narrative text also states that the regulation at issue "does not provide adequate enforcement procedures";

- (d) Article 41.2 of the TRIPS Agreement contains general obligations which relate to the operation of procedures concerning the enforcement of intellectual property rights. The requirements of each sentence of Article 41.2 are distinct but they are all closely related;
- (e) Article 42 of the TRIPS Agreement contains closely related obligations concerning fair and equitable procedures. The requirements of each sentence in Article 42 are distinct but they all set out specific features of fair and equitable civil judicial procedures concerning the enforcement of intellectual property rights;
- (f) the focus of the claims under Articles 41.1, 41.2 and 42 of the TRIPS Agreement is further clarified by the fact that the measures at issue deal with the subject of the protection of geographical indications and designations of origin, which does not impact all intellectual property rights covered by the Agreement, and the narrative text also refers to the protection of trademarks and geographical indications; and
- (g) Article I of the GATT 1994 contains four paragraphs, but the narrative text quotes only the first paragraph. This clarifies that the obligation in Article I:1 is the subject of a claim. The European Communities recognizes this treaty text.<sup>25</sup>

20. The European Communities further contends that it is entitled to know which provision or aspect of Regulation No. 2081/92 is supposed to violate certain obligations and in which way such a violation is deemed to occur. In the Panel's view, the European Communities is seeking the arguments, rather than just the claims, of the United States.<sup>26</sup> That being said, the Panel wishes to assure the European Communities that it is fully entitled to know the arguments of the United States *during the course of the proceedings*. Those arguments must be set out and may be clarified in the United States' submissions.<sup>27</sup> However, Article 6.2 of the DSU does not require those arguments to be set out in the request for establishment of a panel.<sup>28</sup>

21. The Panel notes that Article 6.2 of the DSU calls for sufficient clarity with respect to the legal basis of the complaint so as to enable a defending party to begin preparing its defence.<sup>29</sup> Our examination of the United States' request for establishment of a panel as a whole, in the light of the United States' and the European Communities' respective communications to the Panel to date and the relevant provisions of the covered agreements, leads us to believe that the request for establishment of a panel was sufficiently clear for the European Communities to begin preparing its defence.

22. For these reasons, on the basis of the facts available to us, the Panel rules that the United States' request for establishment of a panel did not fail to provide a brief summary of the legal basis of the complaint sufficient to present the problem clearly in accordance with Article 6.2 of the DSU.

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<sup>25</sup> (footnote original) EC request, *supra* at 10, para. 45.

<sup>26</sup> (footnote original) See the Appellate Body report on *EC – Bananas III*, para. 141; *Korea – Dairy*, para. 139; and *US – Carbon Steel*, para. 173.

<sup>27</sup> (footnote original) *Ibid.*

<sup>28</sup> (footnote original) See the Appellate Body report on *Korea – Dairy*, para. 123.

<sup>29</sup> (footnote original) See the Appellate Body report on *Thailand – H-Beams*, para. 88.

(...)<sup>30</sup>

(d) Due process

43. The European Communities is also of the view that the "deficiencies" of the requests for establishment of a panel seriously prejudice its due process rights as a defending party, notably, to know the case it has to answer.<sup>31</sup>

44. The Panel recalls once again that Article 6.2 of the DSU calls for sufficient clarity with respect to the legal basis of the complaint so as to enable a defending party to begin preparing its defence.<sup>32</sup> In this respect, the Panel has found that the complainants' requests for establishment of a panel were sufficiently clear for the European Communities to begin preparing its defence.<sup>33</sup> Therefore, the Panel considers that it is not necessary to make a separate ruling on this issue, as presented by the European Communities in its request.<sup>34</sup>

45. The Panel is mindful of the due process rights of all parties in this proceeding. In this regard, it notes that the European Communities had a period of over four months after the establishment of the Panel prior to its constitution plus a period of over seven weeks prior to receipt of the complainants' first written submissions to begin preparing its case, and will have an additional period of four and a half weeks from receipt of the complainants' first written submissions to continue preparation of its own first written submission, which is in excess of the maximum period proposed in Appendix 3 to the DSU.

(e) Timeliness

46. The European Communities submitted its request for a preliminary ruling two days after the composition of the Panel. It also raised its concerns at the DSB meetings at which the requests for establishment of a panel were considered.<sup>35</sup>

47. The Panel therefore considers that the European Communities has raised its concerns in a timely manner.<sup>36</sup>

(f) Conclusion

48. In light of the foregoing, on the basis of the facts available to us, the Panel rules that the measures and claims in Australia's and the United States' respective requests for establishment of a panel did not fail to meet the requirements of Article 6.2 of the DSU that they identify the specific measures at issue and provide a brief summary of the legal basis of the complaint sufficient to present the problem clearly. [End of 5 April 2004 ruling]

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<sup>30</sup> Note: paragraphs 23-42 of the preliminary ruling dealt with Australia's request for establishment of a panel.

<sup>31</sup> (footnote original) EC request, *supra* at 10, para. 4.

<sup>32</sup> (footnote original) See *supra* at 29.

<sup>33</sup> (footnote original) See para. 21.

<sup>34</sup> (footnote original) The Panel takes note that the European Communities stated that it does not take a position as to whether "the requirement of prejudice in Article 6.2 DSU" constitutes an additional requirement to those set out in Article 6.2 of the DSU: EC request, *supra* at 10, para. 66, fn. 25

<sup>35</sup> (footnote original) See the minutes of those meetings in documents WT/DSB/M/155, para. 75, and WT/DSB/M/156, para. 32, reproduced in Exhibits EC-2 and EC-3, respectively. The Panel takes note that the European Communities did not clearly raise any problem concerning the alleged failure of Australia's request to identify the specific measures at issue on those occasions.

<sup>36</sup> (corrected footnote original) This does not imply that these issues could not be raised later in the proceedings.

7.3 The Panel stated expressly that its 5 April 2004 preliminary ruling was based on the facts available to it at that time.<sup>37</sup> In this final report, the Panel makes further findings on the sufficiency of the panel request, in light of submissions made later during the course of the panel proceeding. These submissions confirm the Panel's ruling as to the meaning of the words used in the panel request and the Panel's assessment that the ability of the respondent to defend itself was not prejudiced.<sup>38</sup>

7.4 First, the Panel recalls that the European Communities argued, in its request for a preliminary ruling, that:

"The unspecific reference to Regulation 2081/92 made in the Panel requests does not permit the EC to understand which specific aspects among those covered by Regulation 2081/92 the complainants intend to raise in the context of the present proceedings."<sup>39</sup>

7.5 The Panel ruled that Article 6.2 did not require the identification of the "specific aspects" of the specific measures at issue.<sup>40</sup> In any event, after consulting the parties' first written submissions, it is clear that the reference to "Regulation No. 2081/92, as amended" in the request for establishment of a panel did identify certain specific aspects among those covered by the Regulation that the complainant later raised, as follows:

- (a) the United States' claims concerning national treatment (considered in Section VII:B of this report) are based on the differences between the two sets of registration and objection procedures set out in Regulation (EEC) No. 2081/92 (the "Regulation") in Articles 5 through 7 and 12 through 12d, respectively.<sup>41</sup> This is one of the principal features of the Regulation. It was clear from the request for establishment of a panel that the complainant intended to raise these aspects of the Regulation; and
- (b) the United States' claim concerning the legal protection for trademarks (considered in Section VII:C of this report) is based on Article 14 of the Regulation. This provision is specifically devoted to that issue. It was clear from the request for establishment of a panel that the complainant intended to raise this article of the Regulation, as the European Communities itself confirmed in its request for a preliminary ruling.<sup>42</sup>

7.6 Second, the Panel recalls that the European Communities submitted in its February 2004 request for a preliminary ruling that:

"In the present case, the ambiguity of the Panel request is such that the EC is, to this date, not sure of the case which the United States and Australia are bringing before

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<sup>37</sup> See paras. 6, 14 and 48 of the preliminary ruling set out above.

<sup>38</sup> This is consistent with the approach of the Appellate Body in *US – Carbon Steel*, para. 127.

<sup>39</sup> Quoted at para. 10 of the preliminary ruling set out above.

<sup>40</sup> See para. 11 of the preliminary ruling set out above.

<sup>41</sup> To the extent that the claims concern the actions of EC member State authorities in the examination, verification and transmission of applications and objections, the European Communities expressly referred to these actions at para. 31 of its request for a preliminary ruling, attached as Annex B-1 to this report. It also informed the Panel during this proceeding that Community laws are generally not executed through authorities at Community level but rather through recourse to the authorities of its member States: see para. 7.98 below.

<sup>42</sup> The claim concerned coexistence under Article 14(2), subject to Article 14(3). The European Communities expressly referred to both, as well as Article 7(4), to which it referred in its defence, at paras. 47 and 61 of its request for a preliminary ruling, attached as Annex B-1 to this report. The only aspect of the Regulation which it raised in this respect in its request for a preliminary ruling, that it did not later raise in its defence, was Article 14(1): see Section VII:C of this report.

the Panel. As a consequence, the EC has been seriously hampered in its efforts to prepare its defence."<sup>43</sup>

7.7 Specifically, with respect to the national treatment claims, it submitted as follows:

"[T]he US claim is limited to a paraphrasing of the treaty language of [Article 3 TRIPS and Article III:4 GATT]. The US claim does not permit to understand which provision or aspect of Regulation 2081/92 is supposed to violate the national treatment principle, and in which way such a violation is deemed to occur."<sup>44</sup>

7.8 The Panel's assessment was that the request for establishment of a panel was sufficiently clear for the European Communities to begin preparing its defence.<sup>45</sup> After consulting the European Communities' first written submission, and information submitted by the United States, the Panel is now aware that the European Communities had already presented in the Council for TRIPS in September 2002 a statement that responded specifically to the United States' argument that national treatment under the TRIPS Agreement applied to geographical indications. In that statement, the European Communities quoted the texts of Article 3 of the TRIPS Agreement and Article III:4 of GATT 1994 and argued that "[t]hose entitled to rights under TRIPS are nationals".

7.9 Further, in an attachment to a letter sent in January 2003 by Commissioner Lamy to the United States Trade Representative, under the heading "national treatment", the Commissioner referred *inter alia* to the equivalence and reciprocity conditions, the notion of "nationals" under the TRIPS Agreement, and the availability to U.S. nationals of protection for GIs located in the European Communities.<sup>46</sup> These arguments are also an important defence set out in the European Communities' first written submission, in which it is argued that "[t]he conditions for the registration of geographical indications do not depend on nationality".<sup>47</sup>

7.10 With respect to the claim concerning minimum standards of GI protection, the European Communities had submitted in its request for a preliminary ruling that:

"The United States alleges that Regulation 2081/92 'does not provide legal means for interested parties to prevent the misleading use of a geographical indication'. This claim is not comprehensible to the EC. In its Article 13, Regulation 2081/92 contains detailed provisions regarding the protection of geographical indications. These provisions provide interested parties with the legal means to prevent the misleading use of a geographical indication. In the absence of further explanations, the EC fails to comprehend what is the claim that the United States is intending to establish."<sup>48</sup>

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<sup>43</sup> European Communities' request, para. 68, *supra* at 10.

<sup>44</sup> *Ibid.*, para. 44.

<sup>45</sup> See para. 21 of the preliminary ruling set out above.

<sup>46</sup> Exhibit US-73, attachment, page 1. The Panel notes that this letter did not form part of the consultations under Article 4 of the DSU on the national treatment and MFN claims in this dispute, which the United States requested in April 2003 (WT/DS174/1/Add.1). The United States first submitted only a relevant page of the attachment to this letter, identifying it as a "Communication from the EC to the United States of January 16, 2003". The European Communities replied that it did not consider that "this document is attributable to the EC, and will not comment on it any further", (EC rebuttal, para. 84). The United States therefore submitted the full text of the letter and its attachment, which includes other matters relevant to geographical indications, including the issue of prior trademarks, on which the United States requested consultations in 1999 (WT/DS174/1).

<sup>47</sup> European Communities' first written submission, paras. 114 and 123-126.

<sup>48</sup> European Communities' request, para. 49, attached as Annex B-1 to this report.

7.11 The Panel is now aware that, in the same letter, Commissioner Lamy had earlier confirmed to the United States Trade Representative that "US GIs cannot be registered in the EU" but argued that alternative measures besides the Regulation provided protection for U.S. GIs.<sup>49</sup> In light of these attendant circumstances, the allegation that "Regulation 2081/92 'does not provide legal means for interested parties to prevent the misleading use of a geographical indication'" should have been readily comprehensible to the European Communities.

7.12 These statements support the Panel's assessment that the relevant wording of the request for establishment of a panel was sufficiently clear for the European Communities to begin preparing its defence of the first national treatment claim and the claim under Article 22.2 of the TRIPS Agreement.<sup>50</sup>

7.13 Third, the Panel notes that, in any event, the United States' other claims (considered in Section VII:D of this report), brought under the provisions discussed in subparagraphs (a) through (g) of paragraph 19 of the preliminary ruling, were not pursued in such detail. The Panel has found no *prima facie* case or exercised judicial economy in respect of all these claims. This confirms the Panel's assessment that no prejudice has been caused to the rights of the respondent by these claims.

## 2. Measures adopted after the date of establishment of the Panel

### (a) Main arguments of the parties

7.14 The **United States** and **Australia** submitted, as an exhibit, a copy of Commission Regulation (EC) No. 2400/96<sup>51</sup>, which is effectively the register under Article 6 of Council Regulation (EEC) No. 2081/92. Individual designations of origin and geographical indications are added to the register by amending this Commission Regulation. The exhibit includes amendments made up until the time of the first written submissions in this proceeding, nine of which were adopted after the date of establishment of the Panel. Those nine amendments effected the registrations of 15 individual designations of origin and geographical indications.<sup>52</sup>

7.15 The United States and Australia also submitted, as an exhibit, an unofficial consolidated version of Council Regulation (EEC) No. 2081/92, which included amendments published in the Official Journal of the European Communities up until the date of establishment of the Panel.<sup>53</sup> The latest of these amendments is the Act of Accession of ten new EC member States. They also submitted, as an exhibit, an extract from that Act of Accession which provides for the registration of three Czech beer GIs under Article 17 of the Regulation.<sup>54</sup>

7.16 The **United States** indicates that it does not raise claims against the three Czech beer GIs but provides them as examples relevant to issues in dispute. Nevertheless, it submits that the Panel's

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<sup>49</sup> Exhibit US-73, attachment, page 1, *supra* at 46. The relevant passage is quoted at para. 7.83 below.

<sup>50</sup> See also para. 6.7 above.

<sup>51</sup> Exhibit COMP-4b.

<sup>52</sup> Exhibit COMP-4b.viii to xvi. The 15 GIs are "Westlandse druif"; "Alcachofa de Benicarló" or "Carxofa de Benicarló"; "Marrone di San Zeno"; "Mantequilla de l'Alt Urgell y la Cerdanya" or "Mantega de l'Alt Urgell i la Cerdanya"; "Thüringer Leberwurst", "Thüringer Rotwurst", "Thüringer Rostbratwurst"; "Spessa delle Giudicarie"; "Fraise du Périgord"; "Queso de Valdeón"; "Ensaïmada de Mallorca" or "Ensaïmada mallorquina"; "Arbroath Smokies"; "Carciofo di Paestum"; "Farina di Neccio della Garfagnana"; "Agneau de Pauillac" and "Agneau du Poitou-Charentes".

<sup>53</sup> Exhibit COMP-1a.

<sup>54</sup> Exhibit COMP-3c. The Czech beer GIs are "Budejovické pivo", "Ceskobudejovické pivo" and "Budejovický mešt'anský var".

findings could affect trademark rights in future disputes regarding allegedly infringing uses of these three GIs.<sup>55</sup>

7.17 The **European Communities** responds that these measures did not yet exist at the time the Panel was established and are therefore outside the terms of reference. In particular, it submits that the Act of Accession was subject to ratification, which was not completed on the date of establishment of the Panel, and did not enter into force until 1 May 2004.<sup>56</sup> However, it understands that the United States does not raise a claim concerning the registration of the three Czech beer GIs.<sup>57</sup>

(b) Main arguments of third parties

7.18 **China** argues that the wording of the request for establishment of a panel specified amendments to the Regulation and that, therefore, they are properly included in the Panel's terms of reference. The respondent received notice of the inclusion of amendments and had enough opportunity to respond to the complainant's case. It is irrelevant whether the amendments came into effect before or after the Panel was established.<sup>58</sup>

(c) Consideration by the Panel

7.19 The Panel begins by noting that Council Regulation (EEC) No. 2081/92 (referred to in this report as the "Regulation") has not been amended in any relevant respects during this panel proceeding. It was last amended in April 2003, prior to the date of the request for establishment of a panel. However, certain individual registrations were effected under the Regulation after the date of establishment of the Panel and prior to the date of the complainant's first written submission, and registrations continue to be made after that date.

7.20 The Panel notes that the United States does not challenge any individual registrations in this dispute. It is therefore unnecessary to rule on these measures. It suffices to note that individual registrations made after the date of the request for establishment of a panel can be among the best evidence of the way in which certain provisions of the Regulation itself, which are at issue, are interpreted and applied.<sup>59</sup> The Panel may therefore refer to them, as factual evidence, in the course of its assessment of the matter before it.<sup>60</sup>

### 3. Claims under Article 2(2) of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement

(a) Main arguments of the parties

7.21 The **United States** claims that the Regulation imposes a requirement as to domicile or establishment in the European Communities on the availability of registration and the right to object to registrations contrary to Article 2(2) of the Paris Convention (1967) as incorporated by Article 2.1 of the TRIPS Agreement.<sup>61</sup> In its view, the requirement of commercial establishment in the European Union under the Regulation at issue is simply another aspect of the alleged denial of national

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<sup>55</sup> United States' comments on EC response to Panel question No. 137.

<sup>56</sup> European Communities' first written submission, paras. 21-25.

<sup>57</sup> United States' rebuttal submission, paras. 291-292.

<sup>58</sup> Annex C, paras. 70-71.

<sup>59</sup> In fact, the European Communities itself has included one of these GIs in its exhibits: the 2002 publication of the application to register "Thüringer Leberwurst" is Exhibit EC-54.

<sup>60</sup> The Panel refers to the registration of the three Czech beer GIs submitted in an exhibit by the complainants (see para. 7.15 above) as evidence of the operation of Article 14(3) of the Regulation in paras. 7.573 and 7.669 below.

<sup>61</sup> United States' first written submission, paras. 84-85 and 91.

treatment and the requirement in Article 2(2) of the Paris Convention (1967) is connected to and part of the obligation in Article 2(1). Its request for establishment of a panel referred to "national treatment" and "Article 2" of the Paris Convention (1967), which include both paragraphs 1 and 2.<sup>62</sup>

7.22 The **European Communities** responds that these claims are outside the Panel's terms of reference because they relate to Article 2(2) of the Paris Convention (1967) which was not explicitly mentioned in the request for establishment of a panel. Article 2(2) prohibits the imposition of requirements as to domicile or establishment and is therefore different from, and additional to, the obligations resulting from the national treatment provision of Article 2(1).<sup>63</sup>

(b) Consideration by the Panel

7.23 The Panel notes that the United States' request for establishment of a panel refers in narrative form to the treatment of other nationals and products originating outside the European Communities and that provided to the European Communities' own nationals and products, and cites by number Article 2.1 of the TRIPS Agreement "incorporating by reference Article 2 of the Paris Convention" (1967). In its submissions to the Panel, the United States claims that certain aspects of the Regulation are inconsistent with both Article 2(1) and 2(2) of the Paris Convention (1967) as incorporated by Article 2.1 of the TRIPS Agreement.

7.24 The issue for the Panel is whether the reference to national treatment and to Article 2 of the Paris Convention (1967) is sufficient to present the legal basis of the complaint under Articles 2(1) and 2(2), or only Article 2(1).

7.25 The Panel considers that the mere listing of provisions of the relevant covered agreements may not satisfy the standard of Article 6.2 of the DSU, for instance, where the listed provisions establish multiple obligations rather than one single, distinct obligation.<sup>64</sup> However, where the multiple obligations are closely related and interlinked, a reference to a common obligation in the specific listed provisions should be sufficient to meet the standard of Article 6.2 of the DSU under certain circumstances in a particular case.<sup>65</sup>

7.26 Paragraph 1 of Article 2 of the Paris Convention (1967) expresses a national treatment obligation. Paragraph 2 prohibits local domicile or establishment requirements as a condition for the enjoyment of any industrial property rights. The texts of paragraphs 1 and 2 are linked by the use of the conjunction "[h]owever" which indicates that paragraph 2 restricts the rule of paragraph 1. Paragraph 2 in effect provides that certain conditions may not be imposed on foreign nationals, even if they are imposed on a country's own nationals.<sup>66</sup> Paragraph 3 also reserves or excepts certain conditions from the national treatment obligation, but by stating certain conditions which may be imposed on foreign nationals, even if they are not imposed on a country's own nationals. Read in context, all three paragraphs either establish a single obligation or are very closely related:

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<sup>62</sup> United States' first oral statement, para. 27; rebuttal submission, paras. 80-83.

<sup>63</sup> European Communities' first written submission, paras. 36-42; second oral statement, paras. 112-117.

<sup>64</sup> See the Appellate Body report on *Korea – Dairy*, para. 124.

<sup>65</sup> See the Appellate Body report on *Thailand – H-Beams*, para. 93.

<sup>66</sup> A leading commentator explains the addition of the word "however" as follows: "Even when the conditions imposed upon nationals of a country include the stipulation that *those nationals* can claim protection of certain industrial property rights only if they are domiciled or established in the country, this same stipulation cannot be imposed upon *nationals of other countries* of the Union." in Bodenhausen, Professor G.H.C., *Guide to the Application of the Paris Convention for the Protection of Industrial Property*, United International Bureaux for the Protection of Intellectual Property (BIRPI) (1969) (reprinted 1991) ("Bodenhausen"), p. 31. [Emphasis in the original]



paragraph 1 sets out an obligation to provide national treatment and paragraphs 2 and 3 limit that obligation.

7.27 Therefore, in the Panel's view, the references in the request for establishment of a panel to national treatment and to Article 2 of the Paris Convention (1967), which does not specify particular paragraphs, as incorporated by Article 2.1 of the TRIPS Agreement, is sufficient to explain the legal basis of the complaints under both paragraphs 1 and 2 of Article 2. Accordingly, the Panel rules that the claims under Article 2(2) of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement, are within the Panel's terms of reference.

#### **4. Claim regarding objection procedures under GATT 1994**

7.28 The **European Communities** indicates in its responses to questions after the second substantive meeting that, in its view, the United States has made a claim in relation to the objection procedures under the TRIPS Agreement but not under GATT 1994.<sup>67</sup> It does not indicate the reasons for its view.

7.29 The **United States** replies that it makes its claim in relation to the objection procedures under GATT 1994 as well, and refers to passages in its rebuttal submission.<sup>68</sup>

7.30 The parties do not dispute that the United States' claim with respect to objection procedures under GATT 1994 is within the Panel's terms of reference. Nor do they dispute that the United States' rebuttal submission clearly raises a claim in respect of the objection procedures under "the national treatment obligations of GATT 1994". However, the presentation of this claim after the first substantive meeting raises an issue of due process. The United States chose not to pursue this claim in its first written submission but later expected the European Communities to defend itself against an additional claim.

7.31 Normally, this would prejudice a respondent's ability to defend itself. However, the overlapping nature of the United States' claims with respect to different aspects of the same measure and the same type of obligation under different covered agreements is a feature of this dispute. The facts and arguments submitted in support of this claim in respect of the objection procedures under the national treatment obligations of GATT 1994 completely overlap with those in support of claims in respect of the objection procedures under the national treatment obligations in the TRIPS Agreement, and the application procedures under the national treatment obligation in Article III:4 of GATT 1994. This also serves to clarify that this claim is made under Article III:4.

7.32 The requirements of due process have been observed. The European Communities has responded to all the relevant facts and arguments in detail, as well as a question from the Panel concerning the justification of the objection procedures under Article XX(d) of GATT 1994, although it did not otherwise respond to this claim.

7.33 For all these reasons, the Panel will consider this claim.<sup>69</sup>

#### **5. Request by a third party for a suggestion on ways to implement a recommendation**

7.34 **Mexico** considers that "cochineal" should be removed from the list of products covered by the Regulation set out in its Annex II. As a third party, Mexico does not submit this as a claim, but requests that the Panel make a suggestion to this effect pursuant to the second sentence of Article 19.1

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<sup>67</sup> See European Communities' response to Panel question No. 136(d).

<sup>68</sup> United States' comments on EC response to Panel question No. 136(d).

<sup>69</sup> See paras. 7.367 to 7.373 below.

of the DSU. Mexico argues that there is no requirement that a request for such a suggestion must be forwarded by one of the parties and, if the Panel does not deem it appropriate to make such a specific suggestion, the same result would be achieved by a suggestion that the European Communities withdraw the Regulation.<sup>70</sup>

7.35 The Panel takes note of Mexico's request. The issue of the product coverage of the Regulation is not challenged by the claims in this dispute and is therefore outside the Panel's terms of reference. However, Mexico's attention is drawn to Article 10.4 of the DSU.

## 6. Order of analysis of claims

7.36 The claims in this dispute are made under the TRIPS Agreement and GATT 1994 and certain claims under each agreement relate to the same aspects of the measure at issue. There is no hierarchy between these two agreements which appear in separate annexes to the WTO Agreement. The parties have addressed claims under the TRIPS Agreement first in their submissions, which appears logical. Therefore, the Panel will follow that order of analysis in this report.

7.37 The Panel will consider the claims relevant to each aspect of the measure in turn. The following sections of the findings are organized as follows:

- Section B National treatment claims
- Section C Trademark claim
- Section D Other claims

## B. NATIONAL TREATMENT CLAIMS

### 1. Availability of protection

(a) Do the conditions in Article 12(1) of the Regulation apply to WTO Members?

(i) *Main arguments of the parties*<sup>71</sup>

7.38 The **United States** claims that GIs located in the territory of a WTO Member outside the European Union can only be registered under the Regulation if that Member satisfies the conditions in Article 12(1), which require it to adopt a system for GI protection that is equivalent to that in the European Communities and provide reciprocal protection to products from the European Communities.<sup>72</sup>

7.39 The United States argues that these conditions are clearly set out as requirements for registration of GIs in all third countries, including WTO Members, in Articles 12 and 12a of the Regulation. Article 12(1) does not suggest that WTO Members are excluded from its conditions and Article 12a sets out the sole process under the Regulation for the registration of non-EC GIs. If the conditions in Article 12(1) do not apply to WTO Members, then they may not be recognized under Article 12(3) and the Article 12a procedure is still not available for them. It argues that the European Communities had maintained in its public statements up until the time of its first written submission

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<sup>70</sup> Annex C, paras. 115 and 117.

<sup>71</sup> The Panel's citations of parties' submissions in this report are not exhaustive. At times, parties' positions are elaborated in other submissions and responses to questions which are attached in full in Annexes A and B to this report.

<sup>72</sup> United States' first written submission, para. 22.

that the conditions did apply to WTO Members. It did not amend the conditions so that they would not apply to WTO Members when it amended the Regulation in April 2003. The United States would welcome any objective clarification that the conditions do not apply, but the clear language of the Regulation shows that they do. The introductory phrase "[w]ithout prejudice to international agreements" reserves flexibility to protect specific non-EC GIs through bilateral agreements.<sup>73</sup>

7.40 The United States argues that the Panel is not bound by the European Communities' interpretation of its own measure. It is not based on any published official notice, it runs counter to the terms of the Regulation and it does not appear to be authoritative or binding as a matter of EC law. It is a statement by the European Commission which does not prevent the European Council, the EC member States or individuals from contesting that interpretation before the Community courts.<sup>74</sup>

7.41 The **European Communities** responds that the conditions in Article 12(1) of the Regulation do not apply to geographical areas located in WTO Members. The introductory phrase of Article 12(1) provides that it applies "[w]ithout prejudice to international agreements" – which include the WTO agreements. This is made clear by the eighth recital of the April 2003 amending Regulation which took specific account of the provision of the TRIPS Agreement. WTO Members are obliged to provide protection to geographical indications in accordance with Section 3 of Part II and the general provisions and basic principles of the TRIPS Agreement. For this reason, Article 12(1) and 12(3) do not apply to WTO Members. Accordingly, the registration of GIs from other WTO Members is subject to exactly the same conditions as the registration of GIs from the European Communities.<sup>75</sup>

7.42 The European Communities argues that the procedure under Article 12a of the Regulation is not limited to the cases covered by Article 12(3). The term "third country" in Articles 12 through 12d does or does not include WTO Members depending on the wording, context and objectives of each specific provision. The evidence of prior statements by Community officials does not contradict the EC's interpretation in this Panel proceeding and more recent statements support it. The statements made by the agents of the European Commission before the Panel commit and engage the European Communities but their intention is not to create new legal obligations in public international or in Community law. They are made on behalf of the European Communities as a whole and not only the Commission. Community legislation must, so far as possible, be interpreted in a manner that is consistent with international law, in particular where its provisions are intended specifically to give effect to an international agreement concluded by the Community, as indicated by the phrase "[w]ithout prejudice to international agreements". An interpretation that limited that phrase to bilateral agreements would largely deprive it of its useful value.<sup>76</sup>

7.43 The European Communities does not consider that the Panel is "bound" by the EC's interpretation of its own measure. However, it submits that the Panel must take due account of the fact that the Regulation is a measure of EC domestic law and establish its meaning as a factual element. This means that: (1) the burden of proof is on the complainant to establish the meaning of the measure. Given that the claim in the present dispute is based on the measure *per se* and not as applied, the complainant must establish "beyond doubt" that the measure entails a violation; (2) in

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<sup>73</sup> United States' first oral statement, paras. 7-16; rebuttal submission, paras. 8 and 20-21; second oral statement, paras. 18-22. In this regard, the United States also makes a reference to Australia's first written submission and responses to Panel questions in a footnote to para. 8 of its rebuttal submission, and states that the United States "and Australia" have documented numerous cases of EC explanations of its views, in its comment on the EC response to Panel question No. 97.

<sup>74</sup> United States' response to Panel question No. 1 and rebuttal submission, para. 12.

<sup>75</sup> European Communities' first written submission, paras. 62-67; first oral statement, paras. 41-44; rebuttal submission, para. 52.

<sup>76</sup> European Communities' responses to Panel question Nos. 7, 8, 15 and 16; rebuttal submission, paras. 11, 58-60 and 71-87; second oral statement, paras. 45 and 50.

making an objective assessment of the facts and the interpretation of the measure, the Panel should be guided by the rules of interpretation customary in the EC's domestic legal order; and (3) it is the EC's authorities who must interpret and apply the measure and therefore its explanations must be given considerable deference.<sup>77</sup>

(ii) *Main arguments of third parties*

7.44 **Argentina** asserts that the conditions of equivalence and reciprocity apply to GIs located in all third countries. It is unconvinced by the European Communities' explanation of its measure. If its intention had been to distinguish between WTO Members and other third countries, it could have done so more explicitly.<sup>78</sup>

7.45 **Brazil** asserts that the conditions of equivalence and reciprocity apply to GIs located in all third countries. It considers that the European Commission's interpretation of the phrase "without prejudice to international agreements" would not necessarily withstand scrutiny by a judicial body and is unlikely given that the provisions that refer to "third countries" would have been drafted with only a handful of non-WTO Members in mind. The reference in Article 12(2) indicates that third countries means all third countries outside the European Communities, although in Articles 12a(2) and 12d(1) it could mean non-WTO Members. The EC's interpretation could *a contrario* indicate a recognition that the equivalence and reciprocity conditions violate national treatment obligations in GATT 1994 and TRIPS.<sup>79</sup>

7.46 **Canada** considers that Article 12 of the Regulation, read in context with Articles 12a, 12b and 12d, cannot support the interpretation advanced by the European Communities. The ambiguous reference to "international agreements" is insufficient to counter their clear wording. There would not appear to be an alternative legal basis for filing applications for countries outside the European Communities besides Article 12 due to the wording of Article 12a(1). Articles 12b and 12d refer to "WTO Members" and "third countries" which suggests no differential application to "third countries" in Articles 12 and 12a. The European Communities indicated that Article 12 applied to all WTO Members in a statement in September 2002 to the Council for TRIPS.<sup>80</sup>

7.47 **China** argues that the European Communities' interpretation is not accompanied by any supporting evidence and that there is no regulatory language in the provisions to exclude expressly the application of these provisions to WTO Members. The preamble to the April 2003 amending Regulation refers specifically to WTO Members in relation to the right of objection, but does not exclude WTO Members from the equivalence and reciprocity conditions. Had the drafters intended that it should not apply, they would have inserted a clause to that effect in the preamble. The European Communities appears to have admitted that portions of Article 12, regarding product specifications and inspection, do apply to WTO Members.<sup>81</sup>

7.48 **Colombia** submits that, if the European Communities' interpretation of "without prejudice to international agreements" is correct, the Panel should recommend that it modify its legislation in such a way that that phrase acquires the scope and meaning that are assigned to it in the EC's first written submission.<sup>82</sup>

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<sup>77</sup> European Communities' response to Panel question No. 1; second oral statement, paras. 5-7.

<sup>78</sup> Annex C, para. 17.

<sup>79</sup> Annex C, paras. 23-24.

<sup>80</sup> Annex C, paras. 47-50.

<sup>81</sup> Annex C, para. 72.

<sup>82</sup> Annex C, para. 99.

7.49 **Mexico** submits that the language of Article 12(1) of the Regulation is precise and unequivocal. Third countries must satisfy conditions of equivalence and reciprocity in order to receive the same protection as EC member States.<sup>83</sup>

7.50 **New Zealand** submits that the European Communities' interpretation of Article 12(1) and (3) and the phrase "without prejudice to international agreements" is novel and does not withstand close scrutiny. It runs counter to the usual meaning of that phrase and effectively admits that requiring nationals of WTO Members to satisfy the procedures in Article 12(1) and (3) would be contrary to WTO obligations. It is inconsistent with the wording of the Regulation itself and, if Article 12(3) does not apply to WTO Members, then the application procedure in Article 12a would not either. This is the first time that this interpretation has been raised by the European Communities. The alternative interpretation adopted by the complainant is consistent with the wording of the Regulation.<sup>84</sup>

7.51 **Chinese Taipei** asserts that the conditions of equivalence and reciprocity apply to GIs located in all third countries.<sup>85</sup>

(iii) *Consideration by the Panel*

7.52 The first issue in this claim concerns the conditions for registration of GIs under the Regulation. It is not disputed that a GI located outside the European Communities has never been registered nor the subject of an application made under the Regulation.<sup>86</sup> Therefore, the provisions concerning the protection of such GIs have never been applied in a particular instance. However, the United States challenges this aspect of the Regulation "as such".

7.53 The parties agree that the conditions set out in Article 12(1) of the Regulation do not apply to the protection of GIs located within the territory of the European Communities. They disagree as to whether they apply to the protection of GIs located in other WTO Members. The United States claims that they do so apply, and it is not disputed that the European Communities never made a clear statement that these conditions did not so apply prior to this panel proceeding. However, the European Communities responds in its submissions to the Panel that the conditions only apply to third countries that are not WTO Members.

7.54 The European Communities' position, as expressed in its submissions to the Panel, has been welcomed in principle by the complainants and by two third parties<sup>87</sup>. If the United States were satisfied with this position, it would provide a positive solution to many of the national treatment claims in this dispute. However, the United States is not persuaded that the European Communities would be able to implement the position that it has presented to the Panel in light of the terms of the Regulation on its face, allegedly prior inconsistent statements by the European Communities to the Council for TRIPS, the Commission's Guide to the Regulation and elsewhere, and inconsistent statements made during this Panel proceeding by the European Communities.<sup>88</sup> Therefore, although the European Communities submits that the Regulation already is in conformity with its obligations, the Panel is obliged to proceed with its assessment of the national treatment claims based on Article 12(1) of the Regulation.

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<sup>83</sup> Annex C, para. 110.

<sup>84</sup> Annex C, paras. 126-128.

<sup>85</sup> Annex C, paras. 171-172.

<sup>86</sup> See the parties' respective responses to Panel question Nos. 11 and 12 and third parties' comments in Annex C. For the sake of brevity, the Panel refers to a name that refers to a geographical area located in a Member as a GI located in that Member.

<sup>87</sup> See para. 7 of the United States' first oral statement, endorsed by Australia, first oral statement, para. 33, and summaries of arguments of Brazil and Canada, Annex C, paras. 24 and 47.

<sup>88</sup> United States' first oral statement, para. 8; rebuttal submission, para. 5.

7.55 The fact that this is an "as such" challenge, and that the parties disagree sharply on whether the European Communities' interpretation of its own measure is correct, requires the Panel to conduct a detailed examination of the Regulation. In doing so, it examines the Regulation solely for the purpose of determining its conformity with relevant obligations under the WTO covered agreements.<sup>89</sup> Although the Regulation is part of the European Communities' domestic law, the parties agree that the Panel is not bound by the European Communities' interpretation of its provisions.<sup>90</sup> Rather, the Panel is obliged, in accordance with its mandate, to make an objective assessment of the meaning of the relevant provisions of the Regulation. In this context, the Panel is mindful that, objectively, a Member is normally well placed to explain the meaning of its own law. To the extent that either party advances a particular interpretation of a provision of the Regulation at issue, it bears the burden of proof that its interpretation is correct.

7.56 Turning to the Regulation, the Panel notes that it applies to the registration of "designations of origin" and "geographical indications", as defined.<sup>91</sup> For ease of reference, and without prejudice to their consistency with the definition of a geographical indication in Article 22.1 of the TRIPS Agreement, we shall refer to them both as "GIs" in this report, except where the context requires otherwise.

7.57 Certain facts are agreed. The parties agree that the Regulation contains two sets of detailed procedures for the registration of GIs for agricultural products and foodstuffs. The first procedure, in Articles 5 through 7, applies to the names of geographical areas located in the European Communities.<sup>92</sup> It has been part of the Regulation since its adoption in 1992, although it has been amended subsequently in certain respects. The second procedure, principally found in Articles 12a and 12b, applies to the names of geographical areas located in third countries outside the European Communities.<sup>93</sup> It was inserted in the Regulation in April 2003. A third procedure for registration of GIs protected under the national law of EC member States was formerly available under Article 17, but was deleted in April 2003. A fourth possibility is registration by means of an international agreement, discussed below.

7.58 The parties disagree as to whether the second of these procedures is subject to additional conditions found in Article 12(1) of the Regulation that do not apply to the first procedure. Article 12(1) provides as follows:

"1. Without prejudice to international agreements, this Regulation may apply to an agricultural product or foodstuff from a third country provided that:

- the third country is able to give guarantees identical or equivalent to those referred to in Article 4,

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<sup>89</sup> This was the approach of the Appellate Body in *India – Patents (US)*, paras. 65-68.

<sup>90</sup> Parties' respective responses to Panel question No. 1.

<sup>91</sup> The terms "designation of origin" and "geographical indication" are defined in Article 2(2) of the Regulation and they and the abbreviations "PDO" and "PGI" are found in Article 4 of the Regulation (Exhibits COMP-1b and EC-1). Detailed rules of application of the Regulation are found in Commission Regulation (EEC) No. 2037/93 (Exhibit COMP-2).

<sup>92</sup> This is apparent from Article 5(4) of the Regulation which provides that "[t]he application shall be sent to the Member State in which the geographical area is located", and was confirmed by the European Communities in its response to Panel question No. 2. The European Communities also notes that Articles 12a and 12b refer to certain provisions in Articles 5 to 7 as well.

<sup>93</sup> This is apparent from Article 12a(1) of the Regulation which provides that "if a group of a natural or legal person ... in a third country wishes to have a name registered under this Regulation it shall send a registration application to the authorities in the country in which the geographical area is located", and was confirmed by the European Communities in its response to Panel question No. 2.

- the third country concerned has inspection arrangements and a right to objection equivalent to those laid down in this Regulation,
- the third country concerned is prepared to provide protection equivalent to that available in the Community to corresponding agricultural products or foodstuffs coming from the Community."

7.59 Article 12 has been part of the Regulation since its adoption in 1992, although it was amended in April 2003 by the insertion of the requirement of a right of objection equivalent to those laid down in the Regulation, when Article 12(3) and Articles 12a through 12d, including the second procedure described above, among other provisions, were inserted. It is not in dispute that many WTO Members, including the United States, do *not* satisfy the conditions set out in Article 12(1).

7.60 The factual issue for the Panel to decide is whether the conditions set out in Article 12(1) apply to the availability of protection for GIs located in WTO Members. In other words, the factual issue is whether the registration procedure in Articles 12a and 12b is available for GIs located in WTO Members that do not satisfy the conditions in Article 12(1).

7.61 The United States presents two types of evidence. The first is the text of the Regulation and the second consists of the European Communities' own statements concerning the Regulation prior to, and during, this Panel proceeding.

7.62 The Panel begins its analysis by reviewing the measure on its face.<sup>94</sup> The procedure in Articles 12a and 12b of the Regulation begins with the filing of an application under paragraph 1 of Article 12a and continues with its initial examination under paragraph 2. The text of paragraph 1 begins "[i]n the case provided for in Article 12(3)", which immediately limits the availability of the procedure according to the terms of Article 12(3). The text of paragraph 2 of Article 12a begins "[i]f the third country referred to in paragraph 1 deems ..." which confirms that this aspect of the procedure is limited in the same way as paragraph 1. Paragraph 1 of Article 12b sets out the next step in the same procedure and refers to the registration request sent by "the third country", which is the third country described in Article 12b(2).

7.63 Article 12(3) of the Regulation provides as follows:

"3. The Commission shall examine, at the request of the country concerned, and in accordance with the procedure laid down in Article 15 whether a third country satisfies the equivalence conditions and offers guarantees within the meaning of paragraph 1 as a result of its national legislation. Where the Commission decision is in the affirmative, the procedure set out in Article 12a shall apply."

7.64 The case provided for in this paragraph is clear: it refers to a third country which satisfies the conditions in Article 12(1). The initial clause of Article 12a, as confirmed by the chain of cross-references in Articles 12a(2) and 12b(1), therefore limits the procedure in Articles 12a and 12b to such third countries. No other provision in Article 12a or 12b indicates that that procedure is available for the registration of GIs located in a third country which does not satisfy the conditions in Article 12(1), even if it is a WTO Member. This is consistent with Article 12b(2), which provides for objections in the same procedure, and expressly distinguishes between a "Member State of the European Union or a WTO member" and "a third country meeting the equivalence conditions of

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<sup>94</sup> This was the Appellate Body's approach to an "as such" claim in its report on *US – Corrosion-Resistant Steel Sunset Review*, at para. 168.

Article 12(3)". The implication is that a WTO Member is not necessarily a third country meeting those conditions.<sup>95</sup>

7.65 The only other provision in the Regulation which could indicate the possibility of registration of GIs located in a third country which does *not* satisfy the conditions in Article 12(1) is the introductory phrase of Article 12(1) itself, which prefaces the conditions with the clause "[w]ithout prejudice to international agreements". The European Communities concedes that the application of the conditions in Article 12(1) of the Regulation would prejudice its obligations under Article III:4 of GATT 1994 and submits to the Panel that, as a consequence, it would not apply those conditions to GIs located in WTO Members. Nevertheless, it does not follow that the procedure in Articles 12a and 12b is available for the registration of GIs located in WTO Members. That procedure is limited to third countries which satisfy the conditions in Article 12(1) and there is no other procedure in the Regulation available for WTO Members that do not satisfy those conditions. There is the possibility of protection pursuant to an international agreement, but no existing international agreement either incorporates the procedure under Articles 12a and 12b of the Regulation or contains an application and registration procedure for GIs located in all WTO Members. In particular, neither GATT 1994 nor the TRIPS Agreement contains any such procedure.

7.66 Other provisions in the Regulation may also shed light on this issue. Article 12d(1), which provides a right of objection to registration of GIs located in the European Communities, distinguishes twice between persons from "a WTO Member country or a third country recognized under the procedure provided for in Article 12(3)".<sup>96</sup> This expressly grants a right of objection to persons from WTO Members and is a further indication that where the Regulation refers to "a third country recognized under the procedure provided for in Article 12(3)" it does not include a WTO Member unless it has been recognized under that procedure.

7.67 Four other provisions also refer to "a third country recognized under the procedure provided for in Article 12(3)" (or analogous terms) without referring to a WTO Member: Article 5(5) on registration of GIs that straddle the external border of the European Communities, Article 6(6) on homonymous GIs, Article 10(3) on inspection structures and Article 13(5) on the coexistence of registered and unregistered GIs. The European Communities' view of Article 10(3) is that it includes WTO Members<sup>97</sup>, and there seems to be no reason why the other three provisions should exclude WTO Members. These provisions seem to confirm that WTO Members are included in the term "third countries" and therefore require recognition under the procedure provided for in Article 12(3).

7.68 The preamble of the Regulation, which has contained the conditions in Article 12(1) more or less in their current form since the original version was adopted in 1992, sets out its justification. The 19<sup>th</sup> recital reads as follows:

"Whereas provision should be made for trade with third countries offering equivalent guarantees for the issue and inspection of geographical indications or designations of origin granted on their territory;"<sup>98</sup>

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<sup>95</sup> The second sentence of Article 12(3) provides that the procedure in Article 12a shall apply to third countries which the Commission decides satisfy the conditions in Article 12(1). This sentence alone does not exclude the possibility that the procedure might apply to other third countries which do not satisfy those conditions, but there is no other provision in the Regulation to that effect.

<sup>96</sup> This is considered in detail in para. 7.349 below.

<sup>97</sup> European Communities' responses to Panel question Nos. 126(a) and (b).

<sup>98</sup> Exhibits COMP-1b and EC-1.



7.69 The phrase "equivalent guarantees for the issue and inspection" of GIs is a clear reference to the conditions in Article 12(1). There is no recital referring to the possibility of GIs located in any other third countries which do not satisfy these conditions.

7.70 The preamble to the April 2003 amending Regulation, which modified Article 12 and inserted a detailed procedure for applications and objections from third countries in Articles 12a through 12d, sets out the justification for the amendments as follows:

- "(8) The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement 1994, contained in Annex 1C to the Agreement establishing the World Trade Organisation contains detailed provisions on the existence, acquisition, scope, maintenance and enforcement of intellectual property rights.
- (9) The protection provided by registration under Regulation (EEC) No 2081/92 is open to third countries' names by reciprocity and under equivalence conditions as provided for in Article 12 of that Regulation. That Article should be supplemented so as to guarantee that the Community registration procedure is available to the countries meeting those conditions.
- (10) Article 7 of Regulation (EEC) No 2081/92 specifies how objections are to be made and dealt with. To satisfy the obligation resulting from Article 22 of the TRIPS Agreement it should be made clear that in this matter nationals of WTO member countries are covered by these arrangements and that the provisions in question apply without prejudice to international agreements, as provided for in Article 12 of the said Regulation. (...)"<sup>99</sup>

7.71 Paragraph 8 recalls the subject-matter of the TRIPS Agreement without elaborating on its relevance to the Regulation. This clarifies the reference to Article 22 of the TRIPS Agreement in paragraph 10 but it is not clear whether it also relates to paragraph 9. In any event, on the European Communities' later interpretation, the TRIPS Agreement is not relevant to the WTO-consistency of the conditions provided for in Article 12, as referred to in paragraph 9. Rather, the European Communities submits that GATT 1994 ensures their WTO-consistency. GATT 1994 is not recited in the preamble.

7.72 Paragraph 9 contains no qualifier referring to WTO Members, which appears to confirm the position that the conditions in Article 12(1) apply to the availability of protection of GIs located in all third countries and that the registration procedure in Articles 12a and 12b is not available for GIs located in WTO Members that do not satisfy those conditions.

7.73 Paragraph 10 includes the phrase "without prejudice to international agreements, as provided for in Article 12", but it only relates to the right of objection granted to WTO Members' nationals. This is a clear reference to Articles 12b(2) and 12d(1), which were inserted by the amending Regulation. It can be noted that they are the only two provisions in the current version of the Regulation that expressly refer to a "WTO Member", where they also distinguish a WTO Member from a third country recognized under Article 12(3).

7.74 In the Panel's view, the meaning and content of these aspects of the Regulation, together with the amending Regulation, are sufficiently clear on their face for the United States to have discharged its burden of proof of establishing that, under the Regulation "as such", the availability of protection

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<sup>99</sup> Exhibit COMP-1h.

for GIs located in WTO Members is contingent upon satisfaction of the conditions set out in Article 12(1) and recognition by the Commission under Article 12(3).<sup>100</sup>

7.75 There is no supporting evidence of the meaning of these aspects of the Regulation in the form of an interpretation of the relevant provisions by the European Court of Justice or any other domestic court.<sup>101</sup> This is partly explained by the facts that no requests for registration of foreign GIs have been made under the Regulation and that Articles 12a through 12d were inserted only recently, in April 2003.

7.76 The United States also presents evidence consisting of various statements by executive authorities of the European Communities which contain interpretations of the Regulation. The Panel considers that such statements can be useful as, objectively, a WTO Member is normally well placed to explain the meaning of its own domestic law.<sup>102</sup> However, the usefulness of any particular statement will depend on its contents and the circumstances in which it was made. The Panel has weighed the evidence and considers that one statement in particular, in light of the clarity of its contents and the official capacity in which it was delivered, is highly relevant to the issue at hand.

7.77 In a lengthy statement to the Council for TRIPS in September 2002 (prior to the insertion of Articles 12a through 12d), the European Communities specifically responded to the following view expressed by a group of Members, including the United States:

"[U]nder the current EC regulations, the EC does not appear to provide protection for non-EC geographical indications (i.e., place names of other WTO Members), except on the basis of bilateral agreements, or if the EC has determined that a country has a system for geographical indications that is equivalent to the detailed system of the EC."<sup>103</sup>

7.78 The European Communities introduced the relevant part of its response as follows:

"(...) I would like to address one issue that is raised regarding the fact that the EU register for GIs on foodstuffs does not allow the registration of foreign GI unless it is determined that a third country has an equivalent or reciprocal system of GI protection."<sup>104</sup>

7.79 The Panel notes that the European Communities was emphatic at that time that registration systems should primarily be aimed at domestic GIs and it quoted the legislation of several other WTO Members which allegedly do not register foreign GIs without an international agreement.<sup>105</sup> This statement by the European Communities in September 2002 to the Council for TRIPS therefore appears to support the United States' interpretation of the Regulation on its face.

7.80 The European Communities argues that the interpretation set forth in its September 2002 statement to the Council for TRIPS "is not incompatible with the text of Regulation 2081/92 as in force at the time it was made or with the statements of the EC in the present case". In its view, its

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<sup>100</sup> The European Commission has not recognized any other country under this procedure: see European Communities' response to Panel question No. 10. It is not contested that the Commission cannot recognize a third country under Article 12(3) that does not satisfy the equivalence and reciprocity conditions.

<sup>101</sup> European Communities' response to Panel question No. 19.

<sup>102</sup> See para. 7.55 above.

<sup>103</sup> Communication from Australia, Canada, Guatemala, New Zealand, Paraguay, the Philippines and the United States (IP/C/W/360), para. 4.

<sup>104</sup> See the statement in the Annex to the minutes of that meeting in document IP/C/M/37/Add.1.

<sup>105</sup> *Ibid.*

intention at that time was not primarily to explain the EC system for the protection of geographical indications and its statement did not take account of amendments made in April 2003.

7.81 In the Panel's view, the European Communities' September 2002 statement was very clear in its interpretation of the relevant point of the Regulation. Further, nothing in the April 2003 amending Regulation appears to render that statement incompatible with the current version of the Regulation. In fact, the Panel's examination of the insertion of Article 12(3) and Articles 12a through 12d confirms that the conditions in Article 12(1) remain applicable on the same terms.

7.82 The United States also refers to the explanation of the amendments given by the European Commission at the time it proposed them, in March 2002. The Panel considers that this evidence corroborates the previous statement because of the clarity of its contents and the capacity in which it was made. In a press release, the Commission explained that, in order to comply with the TRIPS Agreement, it proposed to extend the right of objection to certain other WTO Member country nationals and further stated:

"Beyond mere TRIPS consistency, the Commission proposes important amendments designed to promote the EU system of denominations of origin as a model to the rest of the world. The driving idea behind is the wish to improve protection of European quality products also outside the EU. As the EU cannot force non-EU countries to do so, they would be invited to do so on a 'reciprocal basis'. If a non-EU country introduced an 'equivalent system' including the right of objection for the EU and the commitment to protect EU names on their territory, the EU would offer a specific protection to register their products for the EU market."<sup>106</sup>

The references to a reciprocal basis and an equivalent system are clear references to the conditions in Article 12(1) of the Regulation.<sup>107</sup>

7.83 The Panel notes that this interpretation is further corroborated by a letter from Commissioner Lamy to the United States Trade Representative in January 2003, as follows:

"While it is true that US GIs cannot be registered in the EU, this does not mean that they are not protected! Any US GI can:

- (1) be registered as a certification trademark (...)
- (2) get protection without registration by invoking before any tribunal in the EU Article 2(1) of Directive 2000/13 on labelling (...)
- (3) invoke the unfair competition rules of the Member States (...)"<sup>108</sup>

7.84 In its submissions to the Panel, the European Communities rejects that interpretation and submits that, due to the introductory phrase of Article 12(1) of the Regulation, "[w]ithout prejudice to international agreements", the conditions in Article 12(1) do not apply to the availability of protection for GIs located in WTO Members. It refers to a statement it made to the Council for TRIPS in June

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<sup>106</sup> European Commission: "Food quality: Commission proposes better protection for geographical names" (Press Release Reference: IP/02/422), Brussels, 15 March 2002 set out in Exhibit US-22.

<sup>107</sup> The amendments effected are identical in this respect to those proposed. The Commission's explanatory memorandum to its Proposal for the amending Regulation also stated that "Article 12 applies the Regulation by reciprocity and under equivalence conditions to agricultural products or foodstuffs originating in a third country, without prejudice to international agreements", Brussels, 15 March 2002 set out in Exhibit US-20 at page 3.

<sup>108</sup> Exhibit US-73, attachment, page 1, *supra* at note 46.

2004 in the days before the first substantive meeting of this Panel<sup>109</sup> and a second edition of the Commission's Guide to the Regulation published in August 2004 in the days prior to the second substantive meeting of this Panel.<sup>110</sup> It advises that "[t]he guide was not prepared in connection with the Panel proceedings".<sup>111</sup>

7.85 The Panel recalls its reasoning in paragraph 7.65 above, and reiterates its view that, even if the phrase "[w]ithout prejudice to international agreements" had the effect of subjecting the conditions in Article 12(1) to the terms of GATT 1994 or the TRIPS Agreement, those agreements do not contain a procedure for applications and registration for GIs located in all WTO Members. WTO Members would still have to satisfy the conditions in Article 12(1) in order for their GIs to gain access to the procedure in Articles 12a and 12b.

7.86 The European Communities admits that this would be a "nonsensical result".<sup>112</sup> However, it is unable to provide a satisfactory explanation as to how this result could be avoided in light of the wording of Article 12a, which begins "[i]n the case provided for in Article 12(3)". The European Communities points out that Article 12(3) refers to the conditions in Article 12(1) and since, in its view, those conditions do not apply to WTO Members, the procedure in Article 12(3) and the reference in Article 12a do not apply to them either.<sup>113</sup>

7.87 The Panel agrees that Article 12(3) provides for a Commission decision on whether a third country satisfies the conditions in Article 12(1) and accepts that, if those conditions do not apply to a third country, there would be no relevant decision under Article 12(3). Yet this does not alter the text of Article 12a which applies "[i]n the case provided for in Article 12(3)". Article 12a does not appear, on its face, to apply to the registration of a GI located in a third country, including a WTO Member, which is not recognized under Article 12(3). For these reasons, the Panel is not persuaded that the European Communities' interpretation is correct.

7.88 It is not necessary for the purposes of this dispute to determine which are the precise international agreements covered by the phrase "[w]ithout prejudice to international agreements". It suffices to note that there is a plausible alternative interpretation that it refers to bilateral agreements under which the European Communities would protect specific GIs.<sup>114</sup> The European Communities does not exclude this, but argues that there is no reason why *only* such specific agreements should be covered.<sup>115</sup> There are currently no such bilateral agreements for agricultural products and foodstuffs, although one has been foreshadowed in a joint declaration with Switzerland.<sup>116</sup>

7.89 In any event, the Panel is not persuaded by the European Communities' explanations during this Panel proceeding of the phrase "[w]ithout prejudice to international agreements" as used in

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<sup>109</sup> See the minutes of that meeting in IP/C/M/44, paras. 62-63, quoted in the European Communities' response to Panel question No. 16 prior to circulation and also set out in Exhibit EC-83. Responses given by the European Communities to questions posed by two other WTO Members in the TRIPS Council review of its legislation in 1996-1997, before the insertion of Articles 12a through 12d, are inconclusive on this issue as they contain no clear statement that equivalence and reciprocity conditions do not apply to the registration of GIs located outside the European Communities in countries without a bilateral agreement: see European Communities' response to Panel question No. 97.

<sup>110</sup> Exhibit EC-64.

<sup>111</sup> European Communities' response to Panel question No. 96.

<sup>112</sup> European Communities' second oral statement, para. 48.

<sup>113</sup> European Communities' response to Panel question No. 7.

<sup>114</sup> United States' first oral statement, para. 8.

<sup>115</sup> European Communities' rebuttal submission, para. 69.

<sup>116</sup> European Communities' response to Panel question No. 21, and see the European Community – Switzerland Joint Declaration on the protection of geographical indications and designations of origin of agricultural products and foodstuffs, 21 June 1999, OJ L 144/350 at 366 set out in Exhibit US-6.

Article 12(1) of the Regulation. At the first substantive meeting, in support of its first defence, it provided the following explanation of that phrase:

"(...) Such international agreements include the WTO Agreements. This is made clear by the 8<sup>th</sup> recital of Regulation 692/2003, which amended the procedures for the registration of non-EC geographical indications, and in this context took specific account of the provisions of the TRIPS.

"WTO Members are obliged to provide protection to geographical indications in accordance with Section 3 of Part II and the general provisions and basic principles of the TRIPS Agreement. For this reason, Article 12 (1) and (3) of Regulation 2081/92 do not apply to WTO Members. (...)"<sup>117</sup>

7.90 This explanation was also reflected in a June 2004 statement that the European Communities made to the Council for TRIPS<sup>118</sup> and the August 2004 edition of the Commission's Guide to the Regulation<sup>119</sup>.

7.91 At the same time, the European Communities' second defence was that the conditions in Article 12(1) of the Regulation were not inconsistent with the national treatment obligations in the TRIPS Agreement, essentially because they discriminate according to the location of GIs and not according to the nationality of persons with rights in relation to GIs.<sup>120</sup>

7.92 It was not clear how these two defences could be reconciled. If the first defence implied that the conditions did not apply because they would prejudice the European Communities' national treatment obligations under the TRIPS Agreement, it would have contradicted the second defence that these conditions were not inconsistent with the national treatment obligations in the TRIPS Agreement. The Panel sought clarification from the European Communities by posing the question "does the EC contest that equivalence and reciprocity conditions such as those under Article 12(1) and (3) of Regulation (EC) No. 2081/92, if applied to other WTO Members, would be inconsistent with the national treatment obligations in the TRIPS Agreement and/or Article III:4 of the GATT 1994?". The European Communities declined to give a specific answer to the Panel's question and concluded as follows:

"As regards the specific conditions contained in Article 12 (1) of Regulation 2081/92, the EC has already confirmed that it does not apply these to WTO Members. For this reason, the EC considers that the question whether these conditions are inconsistent with the national treatment obligations of the TRIPS Agreement and the GATT does not arise."<sup>121</sup>

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<sup>117</sup> European Communities' first written submission, paras. 65-66. It reiterated this in its first oral statement, at para. 43, and confirmed it in its response to Panel question No. 3 adding as follows:

"At the time that Regulation 2081/92 was adopted, the GATT was one of the agreements to which the 'without prejudice' clause applied. Moreover, at the time that Regulation 2081/92 was adopted, the TRIPS Agreement was in the final phases of its negotiation. It was therefore the objective that the 'without prejudice' clause should also apply to the TRIPS and other WTO agreements resulting from the Uruguay Round."

<sup>118</sup> See the minutes of that meeting in document IP/C/M/44, paras. 62-63, cited in response to Panel question Nos. 16 and 95 and set out in Exhibit EC-83.

<sup>119</sup> Set out in Exhibit EC-64.

<sup>120</sup> European Communities' first written submission, paras. 123-126; first oral statement, paras. 46-47; rebuttal submission, para. 43.

<sup>121</sup> European Communities' response to Panel question No. 20.

7.93 The United States then submitted that the European Communities had decided not to defend the conditions in Article 12(1) of the Regulation and that it had apparently conceded that any such requirement was contrary to national treatment and MFN obligations.<sup>122</sup>

7.94 The Panel again sought clarification at the second substantive meeting, by asking which precise obligations under an international agreement would be prejudiced by the application of the specific conditions in Article 12(1) of the Regulation to WTO Members. The European Communities responded that it was its obligations under Article III:4 of GATT 1994, but not Article 3.1 of the TRIPS Agreement, because the Regulation did not involve any discrimination between nationals. It later confirmed this in writing.<sup>123</sup> Therefore, to the extent that the European Communities' explanation of the phrase "[w]ithout prejudice to international agreements" as used in Article 12(1) of the Regulation relies on the TRIPS Agreement, the European Communities has expressly denied that the phrase refers to its own obligations and the Panel does not consider that possible explanation further.<sup>124</sup>

7.95 At this time, the European Communities' explanation of the phrase "[w]ithout prejudice to international agreements" as used in Article 12(1) of the Regulation relies on GATT 1994. In light of the European Communities' analysis that this phrase ensures that "should a conflict between the two acts or provisions occur, then the act or provision to which the 'without prejudice' reference is made prevails"<sup>125</sup>, it is clear that this explanation depends on the view that the equivalence and reciprocity conditions are inconsistent with the European Communities' obligations under Article III:4 of GATT 1994. However, this is difficult to reconcile with the European Communities' earlier view that the question whether these conditions are inconsistent with the national treatment obligations of GATT does not arise, quoted at paragraph 7.92 above. It was also omitted from the earlier explanation that the conditions did not apply because of obligations under the TRIPS Agreement, quoted at paragraph 7.89 above. Further, the evidence submitted by the European Communities provides no additional support for this explanation, as the amending Regulation recites the TRIPS Agreement but not GATT 1994, and the evidence identified at paragraph 7.90 above also reflects the explanation quoted at paragraph 7.89 above.<sup>126</sup>

7.96 For all these reasons, the Panel is not persuaded by the European Communities' explanations of the phrase "[w]ithout prejudice to international agreements" as used in Article 12(1) of the Regulation.

7.97 The Panel takes note that there are various executive authorities involved in the implementation of the Regulation, including representatives of EC member States. Article 15 of the Regulation provides for a regulatory procedure under which the Commission shall be assisted by a regulatory committee composed of the representatives of the EC member States and chaired by the representative of the Commission, who does not vote. The representative of the Commission shall submit to the committee a draft of the measures to be taken. The committee shall deliver its opinion on the draft within a time-limit by qualified majority voting. The Commission shall adopt the measures envisaged if they are in accordance with the opinion of the committee. If the measures are not in accordance with the opinion of the committee, or if no opinion is delivered, the Commission

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<sup>122</sup> United States' rebuttal submission, paras. 3 and 9.

<sup>123</sup> European Communities' response to Panel question No. 94.

<sup>124</sup> In the same question, the Panel also sought clarification of the relevance of the reference to the TRIPS Agreement in the European Communities' first written submission, quoted at paragraph 7.89 above. The European Communities' response does not provide a clear explanation of the relationship between the obligations of WTO Members under the TRIPS Agreement and the applicability of the equivalence and reciprocity conditions under the EC's GI Regulation: see its response to question No. 94(b), second paragraph.

<sup>125</sup> European Communities' rebuttal submission, para. 55.

<sup>126</sup> The United States drew attention to the problems in reconciling the European Communities' submissions on this point in its comment on the EC response to Panel question No. 94.

shall, without delay, submit to the Council a proposal relating to the measures to be taken and shall inform the European Parliament. The Council may act by qualified majority on the proposal within three months. If the Council indicates by qualified majority that it opposes the proposal, the Commission shall re-examine it. If the Council neither adopts the proposed measure nor indicates its opposition within three months, the Commission shall adopt the proposed measure.<sup>127</sup>

7.98 The European Communities' delegation to this panel proceeding confirms that the statements made by agents of the European Commission before the Panel commit and engage the European Communities.<sup>128</sup> It indicates that Community laws are generally not executed through authorities at Community level but rather through recourse to the authorities of its member States which, in such a situation, "act *de facto* as organs of the Community, for which the Community would be responsible under WTO law and international law in general".<sup>129</sup> The Panel accepts this explanation of what amounts to the European Communities' domestic constitutional arrangements and accepts that the submissions of the European Communities' delegation to this panel proceeding are made on behalf of all the executive authorities of the European Communities.<sup>130</sup>

7.99 The parties have presented evidence with respect to the approach that would be taken by the European Court of Justice if the executive authorities registered a GI that was not the subject of an international agreement and that was located in a third country that did not satisfy the conditions in Article 12(1) of the Regulation. The European Communities submits that, according to the settled case law of the European Court of Justice:

"Community legislation must, so far as possible, be interpreted in a manner that is consistent with international law, in particular where its provisions are intended specifically to give effect to an international agreement concluded by the Community."<sup>131</sup>

7.100 The Panel is not persuaded that it is possible to interpret the relevant aspects of the Regulation in the manner advanced by the European Communities in these proceedings, for the reasons already given. The Panel also notes that the basic Regulation does not indicate that its provisions are intended specifically to give effect to an international agreement concluded by the Community. Whilst the April 2003 amending Regulation recites the TRIPS Agreement, it would only seem to do so to justify extending the right of objection to nationals of WTO Members. In any case, the European Communities' later explanation is that the interpretation must take account of GATT 1994, which is not mentioned at all.

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<sup>127</sup> Article 15 of the Regulation, set out in Exhibits COMP-1b and EC-1, Article 5 of Council Decision (EC) No. 1999/468 set out in Exhibit COMP-8 and the European Communities' first written submission, paras. 81-82. There have been instances where the Commission's draft measures have not been in accordance with the opinion of the Committee and where the Council of Ministers has adopted measures under the Regulation: see Exhibit EC-28.

<sup>128</sup> European Communities' responses to Panel questions Nos. 15 and 18.

<sup>129</sup> European Communities' second oral statement, para. 148.

<sup>130</sup> The delegation of the European Communities to the meetings with the Panel was composed of officials of the European Commission and delegates of certain EC member States. The European Communities indicated that its statements to the Panel "commit and engage the European Communities": see response to Panel question No. 15. The Panel accepts that explanation, for the same reasons as those explained by the Panel in *US – Section 301 Trade Act*, at para. 7.123. See also, in this regard, paras. 7.269, 7.339, 7.450 and 7.725 of the present report.

<sup>131</sup> European Communities' response to Panel question No. 15 quoting Case C-341/95, *Bettati*, [1998] ECR I-4355, para. 20; which cited Case C-61/94, *Commission/Germany* [1996] ECR I-4006, para. 52, set out in Exhibits EC-13 and EC-14.

7.101 Article 11 of the DSU requires that "a panel should make an objective assessment of the matter before it, including an objective assessment of the facts of the case ...". In our view, our duty to make an *objective* assessment prohibits us from accepting the interpretation of the applicability of the conditions in Article 12(1) of the Regulation presented by the European Communities in this proceeding, for the reasons set out above.

7.102 Therefore, the Panel concludes that the United States has made a *prima facie* case that the equivalence and reciprocity conditions in Article 12(1) of the Regulation apply to the availability of protection for GIs located in third countries, including WTO Members. In other words, the registration procedure in Articles 12a and 12b is not available for GIs located in third countries, including WTO Members, that do not satisfy the conditions in Article 12(1). The European Communities has not succeeded in rebutting that case.

7.103 The Panel has evaluated the European Communities' interpretation of the applicability of the equivalence and reciprocity conditions and not found it reflected in the text of the Regulation. Had this interpretation been reflected in the text of the Regulation, the Panel could have reached a different conclusion which would have rendered it unnecessary to continue with an examination of the consistency of those conditions with the provisions of the covered agreements.

(b) National treatment under the TRIPS Agreement

(i) *Main arguments of the parties*

7.104 The **United States** claims that the Regulation is inconsistent with Article 3.1 of the TRIPS Agreement and Article 2(1) of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement, because it imposes conditions of *reciprocity* and *equivalence* on the availability of protection. National treatment requires protection of the intellectual property of other Members' nationals regardless of how those other Members treat their own nationals. National treatment does not allow a Member to require that other Members adopt particular standards or procedural rules as a condition for protecting their nationals' intellectual property. This is underscored by Article 1.1 of the TRIPS Agreement which provides that Members are not obligated to select any particular means of implementation over another. There is a wide variety of mechanisms used to implement the GI obligations and one Member cannot require a particular method of implementation as a condition for protecting the GI rights of other Members' nationals.<sup>132</sup>

7.105 The United States argues that the conditions in Article 12(1) of the Regulation apply to *nationals* because EC nationals are permitted to register their home-based EC GIs but U.S. nationals (and nationals of most other WTO Members) are currently not able to register their home-based U.S. GIs.<sup>133</sup> The distinction between the location of a geographical area and the nationality of the right holder is not meaningful as right holders are overwhelmingly nationals of the place where their respective GIs are located. There is an obvious link and close relationship between the nationality of the persons who would seek GI protection for agricultural products and foodstuffs and the territory of the Member in which they are growing or producing such products, which is supported by data on the applicants for certification marks in the United States.<sup>134</sup> The European Communities is a "separate customs territory" within the meaning of footnote 1 to the TRIPS Agreement and, as such, its

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<sup>132</sup> United States' first written submission, paras. 35, 42, 46, 48 and 49.

<sup>133</sup> United States' first written submission, paras. 59, 65 and 76. The United States also cites the GATT Panel report on *US – Malt Beverages* in support of an argument that it is not relevant that certain EC nationals with GIs based outside the EC might be faced with the same conditions because nationals of other WTO Members are entitled to the treatment accorded to the most-favoured EC nationals.

<sup>134</sup> United States' first oral statement, paras. 22-27; response to Panel question No. 27; rebuttal submission, para. 26.



"nationals" are persons domiciled in its territory or legal persons who have a real and effective industrial and commercial establishment in its territory.<sup>135</sup> As a practical matter, any commercial entity growing agricultural products or processing foodstuffs in an EC member State will set up a legal entity under the laws of that EC member State for that purpose.<sup>136</sup> The Regulation protects indications of source, for which the relevant persons are "interested parties" defined in Article 10 of the Paris Convention (1967) to include any locally established producer, regardless of nationality.<sup>137</sup> The April 2003 amending Regulation itself equates nationals with persons resident and established in a Member with respect to the right of objection.<sup>138</sup>

7.106 The United States argues that the conditions in Article 12(1) of the Regulation accord neither the *same protection* nor *no less favourable treatment* to non-EC nationals because they are currently unable to register their home-based GIs. The only way that they might be able to register home-based GIs in the European Communities is for their countries to grant reciprocal GI protection for agricultural products and foodstuffs from the European Communities and adopt an equivalent system of GI protection. The explicit purpose of the Regulation is to bestow significant commercial and competitive advantages through the registration of GIs, including higher profits, the right to use a label, rights to prevent uses by third parties, enforcement and guarantees against the GI becoming generic.<sup>139</sup> This amounts to a denial of "effective equality of opportunities" with respect to the protection of GIs.<sup>140</sup>

7.107 The United States argues that jurisprudence on Article III:4 of GATT 1994 offers useful guidance in the interpretation of Article 3.1 of the TRIPS Agreement. The broad and fundamental purpose of Article III is to avoid protectionism in the application of tax and regulatory measures. This is easily extrapolated to the TRIPS Agreement in which the national treatment obligation is intended to avoid protectionism with respect to the protection of intellectual property rights. Like the measures considered in previous disputes under Article III, the Regulation at issue in this dispute has a plain protective structure in that it systematically denies advantages to nationals producing in their country of nationality where that country does not satisfy the conditions of reciprocity and equivalence.<sup>141</sup>

7.108 The United States argues that the obligations in Article III:4 of GATT 1994 are separate from those in Article 3.1 of the TRIPS Agreement and Article 2 of the Paris Convention (1967) and that the European Communities must satisfy both sets of obligations.<sup>142</sup> The lack of a general exception like Article XX of GATT 1994 is not relevant to whether there is *de facto* discrimination under the TRIPS Agreement or to the interpretation of Article 3 of the TRIPS Agreement.<sup>143</sup>

7.109 The United States also claims that the Regulation imposes a requirement of establishment in the European Communities which is inconsistent with Article 2(2) of the Paris Convention (1967) because a foreign national can only register a GI for a product if he is producing or processing it in the European Communities.<sup>144</sup>

7.110 The **European Communities** responds that this claim must fail. Its first defence is that it does not, in fact, apply the conditions in Article 12(1) of the Regulation to geographical areas located in WTO Members. That defence has been considered in the previous sub-section.

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<sup>135</sup> United States' response to Panel question No. 23; rebuttal submission, paras. 27-31.

<sup>136</sup> United States' response to Panel question No. 22; rebuttal submission, para. 32.

<sup>137</sup> United States' first written submission, paras. 38-39; rebuttal submission, para. 33.

<sup>138</sup> United States' second oral statement, para. 9.

<sup>139</sup> United States' first written submission, paras. 58, 61 and 62; response to Panel question No. 31.

<sup>140</sup> United States' response to Panel question No. 101.

<sup>141</sup> United States' first written submission, paras. 69-75.

<sup>142</sup> United States' rebuttal submission, para. 42.

<sup>143</sup> United States' response to Panel question No. 103.

<sup>144</sup> United States' first written submission, paras. 84-85; rebuttal submission, paras. 84-86.

7.111 The European Communities does not contest that national treatment under the TRIPS Agreement applies to more extensive protection granted in respect of intellectual property rights addressed in the TRIPS Agreement.<sup>145</sup>

7.112 The European Communities argues that the conditions in Article 12(1) of the Regulation do not depend on *nationality*. The Regulation sets out two procedures for registration: one for geographical areas located within the European Communities and one for those located outside the European Communities. Whether the geographical area is located within or outside the European Communities is in no way linked to the question of the nationality of the producers concerned.<sup>146</sup> This may concern the origin of the product but has nothing to do with the nationality of the producer, which is simply of no relevance for the registration of the GI.<sup>147</sup> There are no legal requirements which ensure that applicants for GIs for geographical areas located in the European Communities are always, or usually, EC nationals.<sup>148</sup> There is no reason why a foreign national cannot produce products in accordance with a product specification in a GI registration located in the European Communities, and there are examples of foreign companies which have invested in the European Communities in this way.<sup>149</sup> If an applicant or user sets up a legal entity in the geographical area, that is simply a practical consequence of the fact that products must be produced in accordance with product specifications.<sup>150</sup> Nationality is determined by the laws of each State and is not simply a matter of domicile or establishment, which is highlighted by the specific rules in Article 3 of the Paris Convention (1967) and footnote 1 to the TRIPS Agreement which would otherwise be unnecessary.<sup>151</sup> The European Communities is not a "separate customs territory" within the meaning of footnote 1 to the TRIPS Agreement.<sup>152</sup> The meaning of "interested parties" in Article 10(2) of the Paris Convention (1967) is inapplicable in Article 22 of the TRIPS Agreement.<sup>153</sup> Nationality is not linked to the points of attachment but must be given a uniform meaning for all intellectual property rights.<sup>154</sup> The Regulation does not require any comparison of nationals because it does not contain any discrimination on the basis of nationality.<sup>155</sup>

7.113 The European Communities argues that the existence of different procedures which apply according to location of geographical areas is not sufficient to show *less favourable treatment* but rather there must be a substantive difference between those provisions which entails less favourable treatment. A measure would have to modify the conditions regarding the protection of intellectual property rights within the meaning of the TRIPS Agreement to the detriment of foreign nationals.<sup>156</sup>

7.114 The European Communities argues that the jurisprudence on Article III:2 of GATT 1994 is not relevant to the present dispute because of differences between paragraphs 2 and 4 of Article III and between Article III and Article 3.1 of the TRIPS Agreement. There is no general concept of discrimination common to all WTO agreements. There has never been a *de facto* application of Article 3.1 and the concept of conditions of competition is not easily transposable to the TRIPS Agreement. Whilst it may be possible under certain circumstances that measures which are neutral on their face accord less favourable treatment to nationals, the Panel should take account of the

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<sup>145</sup> European Communities' response to Panel question No. 111.

<sup>146</sup> European Communities' first written submission, paras. 123-126.

<sup>147</sup> European Communities' first oral statement, paras. 46-47; response to Panel question No. 106.

<sup>148</sup> European Communities' response to Panel question No. 22.

<sup>149</sup> European Communities' rebuttal submission, paras. 45-48; second oral statement, paras. 28-30; response to Panel question No. 106.

<sup>150</sup> European Communities' response to Panel question No. 107; second oral statement, paras. 29-30.

<sup>151</sup> European Communities' response to Panel question No. 23; rebuttal submission, paras. 37-40.

<sup>152</sup> European Communities' rebuttal submission, para. 35.

<sup>153</sup> European Communities' response to Panel question No. 24.

<sup>154</sup> European Communities' response to Panel question No. 26.

<sup>155</sup> European Communities' response to Panel question No. 101 and comments on that response.

<sup>156</sup> European Communities' second oral statement, paras. 39-41; response to Panel question No. 113.

following: (1) the present case relates primarily to the origin of goods which is already dealt with more appropriately in the context of Article III:4 of GATT 1994, not the TRIPS Agreement; (2) *de facto* discrimination is a notion closely related to preventing circumvention of national treatment obligations, which does not exist when the specific issue is dealt with in other national treatment provisions, such as those of GATT; and (3) the national treatment provisions of GATT and the TRIPS Agreement should not systematically overlap. In addition, the TRIPS Agreement does not contain any provision corresponding to Article XX of GATT 1994 and it would not seem appropriate for a measure justified on the basis of Article XX to be found incompatible with the covered agreements on the basis of a *de facto* application of TRIPS national treatment.<sup>157</sup>

(ii) *Main arguments of third parties*

7.115 **Brazil** submits that the equivalence and reciprocity conditions in the Regulation are inconsistent with national treatment under Article 3.1 of the TRIPS Agreement. In most cases under the Regulation, discrimination according to geographical areas is discrimination between nationals.<sup>158</sup>

7.116 **Canada** submits that the equivalence and reciprocity conditions in the Regulation are inconsistent with national treatment under Articles 2.1 and 3.1 of the TRIPS Agreement. Discrimination on the basis of geographical area discriminates on the basis of nationality because of the "simple and incontestable" reality that EC nationals are likely to register for protection of GIs located in the European Communities and non-EC nationals are likely to register for protection of GIs located outside the European Communities. The explicit requirement that the physical production of a good that qualifies for a GI take place in the area indicated by the GI, means that an applicant for a GI located in the European Communities will, in all probability be a national of an EC member State. The treatment of "nationals" under the TRIPS Agreement extends *de jure* to geographical area.<sup>159</sup>

7.117 **China** considers that "nationals" within the meaning of the TRIPS Agreement includes natural persons who are domiciled, or legal persons who have a real and effective industrial and commercial establishment, in that Member.<sup>160</sup>

7.118 **Colombia** considers that any distinction that in any way identifies the GIs of the European Communities clearly entails a violation of national treatment obligations.<sup>161</sup>

7.119 **India** considers that the only valid interpretation of "treatment with regard to the protection" in Article 3.1 of the TRIPS Agreement is that no less favourable treatment to nationals of other WTO Members cannot be provided unless no less favourable treatment is also provided to the GIs for which they apply, whether located in the European Communities or in other WTO Members. The only available exceptions are found in Article 3.2.<sup>162</sup>

7.120 **Mexico** considers that the equivalence and reciprocity conditions prevent nationals of other WTO Members enjoying the protection afforded by the Regulation, which is contrary to the national treatment principle in Article 3.1 of the TRIPS Agreement.<sup>163</sup>

7.121 **New Zealand** submits that the term "nationals" clearly has a geographical connotation in the context of the TRIPS Agreement. Article 3 of the Paris Convention (1967) sets out a criterion for

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<sup>157</sup> European Communities' response to Panel question No. 29; rebuttal submission, para. 49; second oral statement, paras. 33-37; response to Panel question No. 103.

<sup>158</sup> Annex C, paras. 23 and 34.

<sup>159</sup> Annex C, paras. 57-63.

<sup>160</sup> Annex C, para. 93.

<sup>161</sup> Annex C, para. 101.

<sup>162</sup> Annex C, para. 104.

<sup>163</sup> Annex C, para. 110.

eligibility for protection to which the definition of "nationals" in Article 1.3 of the TRIPS Agreement refers. Footnote 1 to Article 1.3 of the TRIPS Agreement provides further support. The definition of an applicant in the Regulation includes persons according to their location. The most favourable treatment accorded to EC nationals should be compared with that received by WTO Member nationals. "Less favourable treatment" requires not only a difference in applicable laws but some disadvantage as a result of that difference. At worst, the difference means that the benefits of registration are entirely unavailable. At best, it means that other WTO Member nationals are subject to "extra hurdles" and disadvantaged. As a result, they do not have the same opportunities to protect their GIs through registration as do EC nationals. The individual's right to apply for protection is conditioned on factors over which the applicant has no control. The advantages granted by registration include those under Article 13 and, according to the preamble, higher incomes.<sup>164</sup>

7.122 **Chinese Taipei** submits that the equivalence and reciprocity conditions violate the national treatment obligation in Article 3.1 of the TRIPS Agreement and Article 2(1) of the Paris Convention (1967). It recalls that national treatment under the TRIPS Agreement applies to "nationals" and that the European Communities compares EC nationals and non-EC nationals with GIs located in the European Communities. It treats them completely independently of EC nationals and non-EC nationals with GIs located outside the European Communities. This essentially is an argument that the European Communities can establish a separate set of rules for, and discriminate against, non-EC GIs as it wishes. Chinese Taipei submits that the Panel should examine whether any person, whether an European Communities or a non-EC national, with a GI, whether located in the European Communities or outside the European Communities, receives treatment less favourable than that accorded to an EC national with a GI located in the European Communities. Footnote 1 to the TRIPS Agreement applies to the European Communities as a separate customs territory.<sup>165</sup>

(iii) *Consideration by the Panel*

National treatment obligations in the TRIPS Agreement

7.123 These claims are made under two national treatment obligations: one found in Article 3 of the TRIPS Agreement, which forms part of the text of that agreement, and the other found in Article 2 of the Paris Convention (1967) as incorporated by Article 2.1 of the TRIPS Agreement. The Panel will first consider the claim under Article 3.1 of the TRIPS Agreement.

7.124 Article 3.1 of the TRIPS Agreement provides as follows:

"1. Each Member shall accord to the nationals of other Members treatment no less favourable than that it accords to its own nationals with regard to the protection of intellectual property, subject to the exceptions already provided in, respectively, the Paris Convention (1967), the Berne Convention (1971), the Rome Convention or the Treaty on Intellectual Property in Respect of Integrated Circuits. ..." [footnote 3 omitted]

7.125 Two elements must be satisfied to establish an inconsistency with this obligation: (1) the measure at issue must apply with regard to the protection of intellectual property; and (2) the nationals of other Members must be accorded "less favourable" treatment than the Member's own nationals. The Panel will address each of these elements in turn. The parties do not agree on the meaning of "nationals" for the purposes of this claim. The Panel will therefore address that issue in the course of its consideration of the second element of this claim.

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<sup>164</sup> Annex C, paras. 130-132.

<sup>165</sup> Annex C, paras. 168-172.

Protection of intellectual property

7.126 The national treatment obligation in Article 3 of the TRIPS Agreement applies "with regard to the protection of intellectual property". Footnote 3 provides an inclusive definition of the term "protection" as used in Articles 3 and 4. It reads as follows:

"For the purposes of Articles 3 and 4, 'protection' shall include matters affecting the availability, acquisition, scope, maintenance and enforcement of intellectual property rights as well as those matters affecting the use of intellectual property rights specifically addressed in this Agreement."

7.127 Article 1.2 explains the term "intellectual property":

"2. For the purposes of this Agreement, the term 'intellectual property' refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II."

7.128 Turning to the Regulation, Article 12(1) refers to how the Regulation "may apply", which is a reference to the *availability* of intellectual property rights in relation to "designations of origin" and "geographical indications", as defined in the Regulation. It is not disputed that "designations of origin" and "geographical indications", as defined in the Regulation, fall within the category of "geographical indications", the subject of Section 3 of Part II, and therefore part of a category of intellectual property within the meaning of Article 1.2 of the TRIPS Agreement.

7.129 Therefore, this claim concerns the "protection" of intellectual property, as clarified in footnote 3 to the TRIPS Agreement, within the scope of the national treatment obligation in Article 3 of that Agreement.

7.130 It is not necessary to show that the Regulation implements the minimum standards in Part II of the TRIPS Agreement for the purposes of these claims. National treatment is required with regard to the protection of intellectual property, even where measures provide a higher level of protection.

Less favourable treatment accorded to the nationals of other Members

Less favourable treatment

7.131 The Panel now examines the second element of this claim which is whether the nationals of other Members are accorded less favourable treatment than the European Communities' own nationals. It is useful to recall that Article 3.1 of the TRIPS Agreement combines elements of national treatment both from pre-existing intellectual property agreements and GATT 1994.<sup>166</sup> Like the pre-existing intellectual property conventions, Article 3.1 applies to "nationals", not products. Like GATT 1994, Article 3.1 refers to "no less favourable" treatment, not the advantages or rights that laws now grant or may hereafter grant, but it does not refer to likeness. This combination of elements is reflected in the preamble to the TRIPS Agreement which explains the purpose of the "basic principles" in Articles 3 and 4 (a term highlighted in the title of Part I) as follows:

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<sup>166</sup> Three of these national treatment obligations are incorporated in the TRIPS Agreement itself: Article 2 of the Paris Convention (1967) (considered below at paras. 7.214 and following), Article 5 of the Berne Convention (1971) and Article 5 of the IPIC Treaty, which are incorporated by Articles 2.1, 9.1 and 35 of the TRIPS Agreement, respectively.

"Recognizing, to this end, the need for new rules and disciplines concerning:

- (a) the applicability of the basic principles of GATT 1994 and of relevant international intellectual property agreements or conventions;"

7.132 The "no less favourable" treatment standard set out in the first sentence of Article 3.1 of the TRIPS Agreement is subject to certain specific exceptions, some of them found in the pre-existing intellectual property conventions. None of the exceptions in Article 3.1 and 3.2 are relevant to this dispute.<sup>167</sup> Where these exceptions and limitations do not apply, the language of the basic obligation in the first sentence of Article 3.1 is very broad, referring to treatment that is "no less favourable".

7.133 We recall that the Panel in *US – Section 211 Appropriations Act*, in a finding with which the Appellate Body agreed<sup>168</sup>, found that the appropriate standard of examination under Article 3.1 of the TRIPS Agreement is that enunciated by the GATT Panel in *US – Section 337*. That GATT Panel made the following findings on the "no less favourable" treatment standard under Article III:4 of GATT 1947:

"The words 'treatment no less favourable' in paragraph 4 call for effective equality of opportunities for imported products in respect of the application of laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products. This clearly sets a minimum permissible standard as a basis."<sup>169</sup>

7.134 Therefore, the Panel will examine whether the difference in treatment affects the "effective equality of opportunities" between the nationals of other Members and the European Communities' own nationals with regard to the "protection" of intellectual property rights, to the detriment of nationals of other Members.

7.135 The interpretation of the "no less favourable" treatment standard under other covered agreements may be relevant in interpreting Article 3.1 of the TRIPS Agreement, taking account of its context in each agreement including, in particular, any differences arising from its application to like products or like services and service suppliers, rather than to nationals.<sup>170</sup>

7.136 Under Article III:4 of GATT 1994, the Appellate Body in *US – FSC (Article 21.5 – EC)* has explained its approach to the examination of whether measures affecting the internal sale of *products* accord "treatment no less favourable" as follows:

"The examination of whether a measure involves 'less favourable treatment' of imported products within the meaning of Article III:4 of the GATT 1994 must be grounded in close scrutiny of the 'fundamental thrust and effect of the measure itself'. This examination cannot rest on simple assertion, but must be founded on a careful analysis of the contested measure and of its implications in the marketplace. At the

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<sup>167</sup> Article 24.9 also provides that there shall be no obligation under this Agreement to protect GIs which are not or cease to be protected in their country of origin or which have fallen into disuse in that country.

<sup>168</sup> See the Panel report on *US – Section 211 Appropriations Act*, at paras. 8.131-8.133 and the Appellate Body report, at para. 258.

<sup>169</sup> GATT panel report in *US – Section 337*, at para. 5.11.

<sup>170</sup> In *US – Section 211 Appropriations Act*, the Panel considered that the jurisprudence on Article III:4 of GATT 1994 may be useful in interpreting Article 3.1 of the TRIPS Agreement due to the similarity of their language: see the Panel report at para. 8.129; Appellate Body report at para. 242.

same time, however, the examination need not be based on the *actual effects* of the contested measure in the marketplace."<sup>171</sup>

7.137 Similarly, in the present dispute, the Panel considers it appropriate to base its examination under Article 3.1 of the TRIPS Agreement on the fundamental thrust and effect of the Regulation, including an analysis of its terms and its practical implications. However, as far as the TRIPS Agreement is concerned, the relevant practical implications are those on opportunities with regard to the protection of intellectual property. The implications in the marketplace for the agricultural products and foodstuffs in respect of which GIs may be protected are relevant to the examination under Article III:4 of GATT 1994, considered later in this report.

7.138 The parties disagree on whether the equivalence and reciprocity conditions in Article 12(1) of the Regulation apply to GIs located in other WTO Members outside the European Communities. The Panel recalls its finding at paragraph 7.102 that they do so apply.

7.139 Although the parties disagree on whether the equivalence and reciprocity conditions in Article 12(1) of the Regulation discriminate in a manner inconsistent with the covered agreements, it is not disputed that those conditions accord less favourable treatment to persons with interests in the *GIs* to which those conditions apply.<sup>172</sup> The Panel considers that those conditions modify the effective equality of opportunities to obtain protection with respect to intellectual property in two ways. First, GI protection is not available under the Regulation in respect of geographical areas located in third countries which the Commission has not recognized under Article 12(3). The European Communities confirms that the Commission has not recognized any third countries. Second, GI protection under the Regulation may become available if the third country in which the GI is located enters into an international agreement or satisfies the conditions in Article 12(1). Both of those requirements represent a significant "extra hurdle" in obtaining GI protection that does not apply to geographical areas located in the European Communities.<sup>173</sup> The significance of the hurdle is reflected in the fact that currently no third country has entered into such an agreement or satisfied those conditions.

7.140 Accordingly, the Panel finds that the equivalence and reciprocity conditions modify the effective equality of opportunities with respect to the availability of protection to persons who wish to obtain GI protection under the Regulation, to the detriment of those who wish to obtain protection in respect of geographical areas located in third countries, including WTO Members. This is less favourable treatment.

#### Nationals of other Members

7.141 The issue for the Panel is how the less favourable treatment accorded under the Regulation with respect to the availability of protection affects the treatment accorded to the nationals of other Members and that accorded to the European Communities' own nationals for the purposes of

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<sup>171</sup> Appellate Body Report, *US – FSC (Article 21.5 – EC)*, para. 215, quoting reports in *Korea – Various Measures on Beef*, para. 142, and *Japan – Alcoholic Beverages II*, at 110.

<sup>172</sup> United States' first written submission, paras. 57-60. Note that the European Communities asserts only that the product specifications and inspection regimes for individual GIs do not constitute less favourable treatment. With respect to the equivalence and reciprocity conditions, it asserts that it does not apply them and that they do not depend on nationality, but *not* that they do not accord less favourable treatment where they apply: see its first written submission, paras. 113-126, and paras. 62-69. It also concedes that they constitute less favourable treatment for the purposes of Article III:4 of GATT 1994, but does not consider that the meaning of the phrase is necessarily the same as in Article 3.1 of the TRIPS Agreement: see its responses to Panel question Nos. 94(a) and 113.

<sup>173</sup> This was also the approach of the Appellate Body in *US – Section 211 Appropriations Act* to an "extra hurdle" imposed only on foreign nationals: see para. 268 of its report.

Article 3.1 of the TRIPS Agreement. Article 1.3 defines "nationals of other Members" in order to determine the persons to whom Members shall accord treatment, which includes national treatment.<sup>174</sup> It provides as follows:

"3. Members shall accord the treatment provided for in this Agreement to the nationals of other Members. In respect of the relevant intellectual property right, the nationals of other Members shall be understood as those natural or legal persons that would meet the criteria for eligibility for protection provided for in the Paris Convention (1967), the Berne Convention (1971), the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits, were all Members of the WTO members of those conventions. (...)" [footnote 1 omitted]

7.142 In respect of the intellectual property rights relevant to this dispute, it is not disputed that the criteria for eligibility for protection that apply are those found in the Paris Convention (1967). Articles 2 and 3 of the Paris Convention (1967) provide how nationals and persons assimilated to nationals are to be treated. In the Panel's view, these are "criteria for eligibility for protection" for the purposes of the TRIPS Agreement.<sup>175</sup>

7.143 Articles 2 and 3 of the Paris Convention (1967) refer to "nationals" without defining that term. Article 3 of the Paris Convention (1967) provides for the assimilation of certain persons to nationals as follows:

"Nationals of countries outside the Union who are domiciled or who have real and effective industrial or commercial establishments in the territory of one of the countries of the Union shall be treated in the same manner as nationals of the countries of the Union."<sup>176</sup>

7.144 The rule in Article 3 of the Paris Convention (1967) only applies to nationals of countries *outside the Paris Union*. According to Article 1.3 of the TRIPS Agreement, these criteria shall be understood as if "all Members of the WTO" were members of that Convention. Therefore, for the purposes of the TRIPS Agreement, that rule of assimilation only applies to persons that are nationals of a country *that is not a WTO Member*. It does not apply to nationals of other WTO Members, such as the United States. Therefore, it does not mean that all persons who have a domicile or a real and effective industrial and commercial establishment in a WTO Member are necessarily nationals of that WTO Member for the purposes of the TRIPS Agreement.

7.145 Otherwise, the Paris Convention (1967) contains no common rules on the meaning of "nationals". It can be noted that the original Paris Convention of 1883 appeared to use the term "subjects and citizens" and "nationals" interchangeably. The phrase "subjects and citizens" was

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<sup>174</sup> This can be contrasted with the detailed definitions in Article XXVIII of GATS of "natural person of another Member", "juridical person of another Member", "juridical person" and a juridical person "owned" or "controlled" by persons of a Member or "affiliated" with another person.

<sup>175</sup> Article 1.3 of the TRIPS Agreement also refers to the criteria for eligibility for protection in the Berne Convention (1971). It can be observed that the title inserted to facilitate identification of Article 3 of the Berne Convention (1971), which concerns authors who are nationals or assimilated to nationals, also refers to "Criteria of Eligibility for Protection". This is consistent with the Panel's view of the criteria in the Paris Convention (1967) for the purposes of the TRIPS Agreement.

<sup>176</sup> These are the same criteria at those used in footnote 1 to the TRIPS Agreement, set out at para. 7.154 below.



replaced with "nationals" in Articles 2 and 3 in the Hague Act of 1925 without, apparently, changing the scope of the Convention.<sup>177</sup>

7.146 A leading commentator on the Paris Convention (1967) explains the practice under that Convention as follows:

"With respect to *natural* persons, nationality is a quality accorded or withdrawn by the legislation of the State whose nationality is claimed. Therefore, it is only the legislation of that State which can define the said nationality and which must be applied also in other countries where it is invoked.

"With respect to *legal* persons, the question is more complicated because generally no 'nationality' as such is granted to legal persons by existing legislations. Where these legal persons are the State themselves, or State enterprises, or other bodies of *public status*, it would be logical to accord to them the nationality of their country. With regard to corporate bodies of *private status*, such as companies and associations, the authorities of the countries where application of the Convention is sought will have to decide on the criterion of 'nationality' which they will employ. This 'nationality' can be made dependent upon the law according to which these legal persons have been constituted, or upon the law of their actual headquarters, or even on other criteria. Such law will also decide whether a legal person or entity really exists." [original footnote omitted]<sup>178</sup>

7.147 This is consistent with the position under public international law.<sup>179</sup> With respect to the meaning of "nationals of other Members" for the purposes of the TRIPS Agreement, WTO Members have, through Article 1.3 of the TRIPS Agreement, incorporated the meaning of "nationals" as it was understood in the Paris Convention (1967) and under public international law. With respect to natural persons, they refer first to the law of the Member of which nationality is claimed.<sup>180</sup> With respect to legal persons, each Member first applies its own criteria to determine nationality.

7.148 The meaning of "nationals" under public international law is also relevant to the meaning of a Member's "own nationals". Whilst the TRIPS Agreement does not create obligations for a Member to accord treatment to its own nationals, it does refer to the treatment that each Member accords to its own nationals as the benchmark for its obligation to accord national treatment under Article 3.1, as well as under the other national treatment obligations incorporated by reference, including Article 2 of the Paris Convention (1967). To that extent, the way in which a Member defines its own nationals

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<sup>177</sup> Article 2 originally provided that "subjects and citizens" will enjoy the advantages granted to "nationals". As early as 1897, the Chair of the Brussels Diplomatic Conference commented that, in practice, the rights conferred on physical persons must belong equally to juridical persons and it seemed to be unanimously recognized that this was the scope of the Convention, see *Actes de Paris*, 1897, 3<sup>rd</sup> session, p. 196. "Subjects and citizens" was replaced with the word "nationals" at the 1925 Hague Diplomatic Conference because, in its brevity, it was considered more comprehensive, and was consistent with the terminology of the Convention: see *Actes de Paris*, 1925, report of drafting committee, p. 538.

<sup>178</sup> See Bodenhausen, *supra* at note 66, pp. 27-28.

<sup>179</sup> See, for example, A.A. Fatouros, "National Legal Persons in International Law" in R. Bernhardt (ed.), *Encyclopedia of Public International Law*, Volume III (1997) pp. 495-501; and I. Brownlie, *Principles of Public International Law* (5<sup>th</sup> edition, Oxford, 1998), p.426, submitted to the Panel by the European Communities in Exhibits EC-88 and EC-115, respectively.

<sup>180</sup> With respect to natural persons, the Panel also notes that a State may not be bound to recognize a grant of nationality if it does not represent a genuine connection between the natural person and the State granting the nationality: see the judgement of the International Court of Justice in the *Nottenbohm case* (*Liechtenstein v Guatemala*) (second phase), ICJ Reports (1955), 4.

can also be subject to review for the purposes of determining conformity with its national treatment obligations under the TRIPS Agreement.

7.149 The European Communities has explained to the Panel that, with respect to natural persons, under the domestic law of the European Communities, any person who is a national of an EC member State is a citizen of the European Union and, accordingly, an EC national.<sup>181</sup> It has explained that, with respect to legal persons, the domestic law of the European Communities does not contain a specific definition of nationality, but nor does the domestic law of many other WTO Members.<sup>182</sup> However, the European Communities informs the Panel that any legal person considered a national under the laws of an EC member State would also be an EC national. The criteria used by the EC member States to determine the nationality of a legal person may vary and include criteria such as the place of incorporation and the place of the seat of the company or a combination of such criteria.<sup>183</sup>

7.150 The United States has not challenged the criteria used by the European Communities to determine nationality. The Panel notes that these criteria appear to be the same as those used in public international law.<sup>184</sup> Therefore, the Panel can use them to determine which persons are "nationals" under Article 3.1 of the TRIPS Agreement.

7.151 Turning to the Regulation, it is agreed that it does not, on its face, refer to "nationals". It refers to the location of geographical areas, or GIs. In theory, there may be foreign citizens or corporations who are entitled to use GIs located in the European Communities and obtain protection under the Regulation. The issue for the Panel is to determine the treatment accorded to the nationals of other Members and that accorded to the European Communities' own nationals, when such treatment depends on the location of GIs.

#### Specific definitions of "nationals"

7.152 The United States argues that there are specific definitions of "nationals" applicable in this dispute, either of which would identify the nationality of persons with the location of GIs. The first specific definition would apply to the European Communities and the other would apply to GIs. The Panel finds that the following graphic, based on one set out in Chinese Taipei's third party submission, provides a useful framework for its analysis of this issue.

1. EC national with GI located in the EC	3. EC national with GI located outside the EC
2. Non-EC national with GI located in the EC	4. Non-EC national with GI located outside the EC

Graphic 1

<sup>181</sup> Article 8 of the EC Treaty.

<sup>182</sup> Article 58 of the EC Treaty provides that companies or firms formed in accordance with the law of an EC member State and having their registered office, central administration or principal place of business within the European Community shall, for the purposes of Chapter 2 of the EC Treaty on the right of establishment, be treated in the same way as natural persons who are nationals of EC member States.

<sup>183</sup> European Communities' response to Panel question No. 105. It also referred to a criterion based on the nationality of controlling shareholders, but the evidence submitted in support does not appear to indicate that this is of relevance to corporate nationality under the TRIPS Agreement.

<sup>184</sup> See *supra* at note 179.

7.153 The graphic depicts the four relevant possible combinations of nationality of persons and the location of a GI, each in a separate numbered quadrant. In terms of this graphic, the Panel's conclusion at paragraph 7.102 is that the conditions of reciprocity and equivalence in Article 12(1) of the Regulation apply to the persons in quadrants 3 and 4 only. There is therefore discrimination between the persons in quadrants 1 and 2, on the one hand, and those in quadrants 3 and 4, on the other hand.

7.154 The United States argues that a special regime to determine nationals applies to the European Communities as a separate customs territory Member of the WTO within the meaning of footnote 1 to Article 1.3 of the TRIPS Agreement. Footnote 1 provides as follows:

"Footnote 1: When 'nationals' are referred to in this Agreement, they shall be deemed, in the case of a separate customs territory Member of the WTO, to mean persons, natural or legal, who are domiciled or who have a real and effective industrial or commercial establishment in that customs territory."<sup>185</sup>

7.155 If the European Communities is a "separate customs territory Member of the WTO" within the meaning of footnote 1, references to its "nationals" in the TRIPS Agreement mean all persons, natural or legal, who are domiciled or who have a real and effective industrial or commercial establishment in the European Communities, irrespective of the citizenship of an individual or the nationality of a corporation under public international law. Persons who are entitled to a GI in a particular geographical area within the territory of the European Communities, may correspond to this definition of nationals, even if they are foreign citizens or corporations. This would conflate quadrants 1 and 2, to which conditions of reciprocity and equivalence do not apply, and require any comparison of treatment for the purposes of the national treatment obligation to be made with persons in either or both of quadrants 3 and 4, to whom those additional conditions do apply.

7.156 The European Communities submits that it is not a separate customs territory Member of the WTO.

7.157 The Panel notes that the term "separate customs territory" in the text of footnote 1 is qualified by the term "Member of the WTO". The parties refer us to certain interpretative guidance in the WTO Agreement as to the meaning of these terms.

7.158 The original Members of the WTO are described in Article XI:1 of the WTO Agreement as "[t]he contracting parties to GATT 1947 as of [1 January 1995], and the European Communities". This simply reflects the fact that the European Communities is the only original Member that was not a Contracting Party to GATT 1947, but does not address the issue whether or not it is a separate customs territory Member of the WTO. The voting rules in Article IX:1 of the WTO Agreement reflect the *sui generis* character of the European Communities among the Members of the WTO.

7.159 Accession of new Members to the WTO is possible under Article XII of the WTO Agreement, paragraph 1 of which refers to "[a]ny State or separate customs territory possessing full autonomy in the conduct of its external commercial relations and of the other matters provided for in this Agreement and the Multilateral Trade Agreements". It is not disputed that the European Communities is not a State, but it did not accede to the WTO under the terms of Article XII and the terms of that Article are therefore inapplicable to it.

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<sup>185</sup> These are the same criteria as those used in Article 3 of the Paris Convention (1967), set out at paragraph 7.143 above.

7.160 The first explanatory note to the WTO Agreement only refers to countries and separate customs territories Members of the WTO.<sup>186</sup> The European Communities is not a country, but this note might not be relevant if all references to a "country" in the relevant agreements can be adequately understood in relation to the European Communities.<sup>187</sup>

7.161 The second explanatory note to the WTO Agreement provides guidance where an expression in that agreement and the multilateral trade agreements is qualified by the term "national" in the case of a "separate customs territory Member of the WTO".<sup>188</sup> Footnote 1 to the TRIPS Agreement is not within the scope of this explanatory note because it uses the word "national" as a noun and not as a qualifying expression. In any case, the explanatory note does not indicate if the European Communities is a separate customs territory Member of the WTO.

7.162 The Panel considers these provisions inconclusive as regards the question before it and must therefore interpret the term "separate customs territory Member of the WTO" according to the general rule of treaty interpretation. It is not disputed that the European Communities is a customs territory.<sup>189</sup> The key word appears to be "separate", which can be defined as follows:

"Put apart, disunite, part, (two or more persons or things, or one from another); detach, disconnect, *treat as distinct*, (*one thing*); make a division between (two things)." [emphasis added]<sup>190</sup>

7.163 We highlight the definition 'treat as distinct, (one thing)', given that a "separate customs territory Member of the WTO" is one thing, and the word "distinct" corresponds to the term used in that phrase in the French and Spanish versions, which are equally authentic.<sup>191</sup> It is not disputed that all Members of the WTO are separate, or distinct, from one another. Most Members that are not part of a customs union are a customs territory separate from other customs territories. The word "separate" would be redundant if this is all it meant. Logically, it must indicate a customs territory that is separate from another Member in some other way.

7.164 The context elsewhere in the WTO Agreement bears this out. The term "separate customs territory" is used in Article XXVI:5 of GATT 1994<sup>192</sup>, which treats a separate customs territory as a

<sup>186</sup> The first explanatory note provides as follows:

"The terms 'country' or 'countries' as used in this Agreement and the Multilateral Trade Agreements are to be understood to include any separate customs territory Member of the WTO."

<sup>187</sup> For example, references in the covered agreements to "developing countries", "least-developed countries", "importing country", "exporting country", "third country" and "country of origin".

<sup>188</sup> The second explanatory note provides as follows:

"In the case of a separate customs territory Member of the WTO, where an expression in this Agreement and the Multilateral Trade Agreements is qualified by the term 'national', such expression shall be read as pertaining to that customs territory, unless otherwise specified."

<sup>189</sup> This is consistent with the definition of a "customs territory" for the purposes of GATT 1994 in Article XXIV:2.

<sup>190</sup> *The New Shorter Oxford English Dictionary* (1993).

<sup>191</sup> See the final clause of the WTO Agreement.

<sup>192</sup> Article XXVI:5 provides as follows:

"(a) Each government accepting this Agreement does so in respect of its metropolitan territory and of the other territories for which it has international responsibility, except such separate customs territories as it shall notify to the Executive Secretary to the CONTRACTING PARTIES at the time of its own acceptance.

"(b) Any government, which has so notified the Executive Secretary under the exceptions in subparagraph (a) of this paragraph, may at any time give notice to the Executive Secretary that its acceptance shall be effective in respect of any separate customs territory or territories so excepted and

territory for which a GATT Contracting Party, now a WTO Member<sup>193</sup>, has international responsibility, and is distinguished from a metropolitan territory. It is also found in Article XXXIII of GATT 1994.<sup>194</sup>

7.165 The object and purpose of the TRIPS Agreement includes the conferral of intellectual property protection on the nationals of WTO Members. Footnote 1 is a deeming provision for the purposes of nationality. This confirms that the reason for the inclusion of footnote 1 was that separate customs territories do not confer nationality and, hence, a supplementary definition was required.

7.166 The European Communities does not form a separate part of the territory of a country. Rather, the territory of the European Communities is made up primarily of the territories in Europe, that is, where relevant, the metropolitan territories, of a group of countries, the number of which increased to 25 during this Panel proceeding.<sup>195</sup> It is neither a territory part of another country, nor a separate territory for which other WTO Members have international responsibility. The European Communities has informed the Panel that it has a citizenship for natural persons, and, generally speaking, treats legal persons organized under the laws of an EC member State as EC nationals under its domestic law, as described above.<sup>196</sup>

7.167 Therefore, the Panel accepts the European Communities' submission that it is not a "separate customs territory Member of the WTO" within the meaning of footnote 1 to the TRIPS Agreement, and finds that its nationals, for the purposes of the TRIPS Agreement, are not defined by that footnote. The Panel would like to stress that its finding is limited solely to footnote 1 of the TRIPS Agreement and is not intended to be a finding of general application for other covered agreements.

7.168 The United States also argues that the criteria for eligibility for protection in the Paris Convention (1967), as incorporated by Article 1.3 of the TRIPS Agreement, include Article 10(2) of the Paris Convention (1967). It argues that Article 10(2) sets out a specific criterion of eligibility of protection in respect of designations of origin and geographical indications, which defines the "nationals of other Members" in respect of those industrial property rights for the purposes of the TRIPS Agreement. Persons entitled to use a GI in a geographical area in a WTO Member outside the territory of the European Communities may correspond to this definition of nationals of other Members. This argument would conflate quadrants 3 and 4 in the graphic set out earlier, to which the conditions of reciprocity and equivalence apply, and require any comparison of treatment for the

such notice shall take effect on the thirtieth day following the day on which it is received by the Executive Secretary.

"(c) If any of the customs territories, in respect of which a contracting party has accepted this Agreement, possesses or acquires full autonomy in the conduct of its external commercial relations and of the other matters provided for in this Agreement, such territory shall, upon sponsorship through a declaration by the responsible contracting party establishing the above-mentioned fact, be deemed to be a contracting party." [footnotes omitted]

<sup>193</sup> Read in accordance with explanatory note 2(a) to GATT 1994.

<sup>194</sup> Article XXXIII provides as follows:

"A government not party to this Agreement, or a government acting on behalf of a separate customs territory possessing full autonomy in the conduct of its external commercial relations and of the other matters provided for in this Agreement, may accede to this Agreement, on its own behalf or on behalf of that territory, on terms to be agreed between such government and the CONTRACTING PARTIES. Decisions of the CONTRACTING PARTIES under this paragraph shall be taken by a two-thirds majority."

<sup>195</sup> Under Article 182 of the EC Treaty, the EC member States agree to associate with the Community the non-European countries and territories which have special relations with Denmark, France, the Netherlands and the United Kingdom listed in Annex II to the Treaty.

<sup>196</sup> European Communities' response to Panel question No. 105.

purposes of the national treatment obligation to be made with persons in either or both of quadrants 1 and 2, to whom those additional conditions do not apply.

7.169 The United States observes that the GI obligations in Articles 22 and 23 of the TRIPS Agreement refer to the persons entitled to protection as "interested parties" and that Article 10(2) of the Paris Convention (1967) sets out persons who shall be deemed an "interested party" for the purposes of an obligation related to certain false indications. Article 10(2) refers *inter alia* to establishment in the locality or country falsely indicated. The United States argues that this provides guidance as to the persons who shall be deemed an "interested party" for the purposes of Articles 22 and 23 of the TRIPS Agreement and, hence, the national treatment obligation in Article 3.1.

7.170 The Panel accepts that an "interested party" is a person who is entitled to receive protection under Articles 22 and 23 of the TRIPS Agreement. However, in the Panel's view, Article 10(2) of the Paris Convention (1967) does not set out a criterion for eligibility for protection. Article 10(2) is a deeming provision for the term "interested party" used in Article 9(3) of the Paris Convention (1967), as made applicable under Article 10(1). Once a person has qualified as a national, Article 10(2) may provide guidance on whether that person may be treated as an interested party for the purposes of Articles 22 and 23 of the TRIPS Agreement. However, Article 10(2) does not set out a criterion for eligibility for protection under the Paris Convention (1967) for the purposes of Article 1.3 of the TRIPS Agreement.

7.171 Therefore, the Panel rejects the specific definitions of "nationals" advanced by the United States and confirms its finding at paragraph 7.150 as to the criteria that can be used to determine which persons are "nationals" for the purposes of Article 3.1 of the TRIPS Agreement, for the purposes of this dispute.

#### Formally identical provisions

7.172 The issue for the Panel remains that of determining the treatment accorded to the nationals of other Members and to the European Communities' own nationals. On its face, the Regulation contains formally identical provisions vis-à-vis the nationals of different Members, with respect to the availability of GI protection.

7.173 It is well recognized that the concept of "no less favourable" treatment under Article III:4 of GATT 1994 is sufficiently broad to include situations where the application of formally identical legal provisions would in practice accord less favourable treatment. The GATT Panel in *US – Section 337*, which considered an intellectual property enforcement measure prior to the conclusion of the TRIPS Agreement, interpreted the "no less favourable" standard under Article III:4 as follows:

"On the one hand, contracting parties may apply to imported products different formal legal requirements if doing so would accord imported products more favourable treatment. On the other hand, it also has to be recognised that there may be cases where application of formally identical legal provisions would in practice accord less favourable treatment to imported products and a contracting party might thus have to apply different legal provisions to imported products to ensure that the treatment accorded them is in fact no less favourable."<sup>197</sup>

7.174 The Appellate Body in *Korea – Various Measures on Beef*, in a dispute concerning formally different treatment, quoted this passage and drew the conclusion that "[a] formal difference in

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<sup>197</sup> GATT panel report in *US – Section 337*, para. 5.11.

treatment between imported and like domestic products is thus neither necessary, nor sufficient, to show a violation of Article III:4".<sup>198</sup> It then proceeded to apply the relevant standard of examination.

7.175 The Panel in *Canada – Pharmaceutical Patents* also considered that claims against both formal and practical discrimination are possible under the TRIPS Agreement, although that dispute concerned minimum standards of protection in Part II and not the basic principles in Part I.<sup>199</sup>

7.176 We consider that this reasoning applies with equal force to the no less favourable treatment standard in Article 3.1 of the TRIPS Agreement. In our view, even if the provisions of the Regulation are formally identical in the treatment that they accord to the nationals of other Members and to the European Communities' own nationals, this is not sufficient to demonstrate that there is no violation of Article 3.1 of the TRIPS Agreement. Whether or not the Regulation accords less favourable treatment to the nationals of other Members than it accords to the European Communities' own nationals should be examined instead according to the standard we set out at paragraph 7.134, namely, the "effective equality of opportunities" with regard to the protection of intellectual property rights. In this examination, we will follow the approach that we set out at paragraph 7.137, which focuses on the "fundamental thrust and effect" of the Regulation.

Which nationals to compare?

7.177 The text of Article 3.1 expressly calls for a comparison when it provides that "[e]ach Member shall accord to the nationals of other Members treatment no *less* favourable *than* that it accords to its own nationals" (emphasis added). The question arises as to which nationals it is appropriate to compare.

7.178 The United States submits that the Panel should compare the treatment of a hypothetical EC national with a GI located in the European Communities, and the treatment of a hypothetical U.S. national with a GI located in the United States. This is a comparison of a person in quadrant 1 with a person in quadrant 4 in the graphic set out earlier.

7.179 The Panel recalls that the Regulation contains formally identical provisions vis-à-vis the nationals of different Members. In the absence of less favourable treatment based on a formal criterion of nationality, or a criterion that fully corresponds with nationality, the Panel is reluctant to compare a hypothetical national of one Member with a national of another Member simply because they both claim rights to the same category of intellectual property. This is a very low threshold with possibly unforeseen systemic implications for all intellectual property rights covered by the TRIPS Agreement.

7.180 The United States also submits that there is discrimination according to nationality on the basis of a comparison of the group of the European Communities' own nationals who wish to obtain GI protection under the Regulation, with the group of nationals of other WTO Members who wish to obtain GI protection under the Regulation. This is a comparison of the persons in both quadrants 1 and 3 with the persons in both quadrants 2 and 4 in the graphic set out earlier.

7.181 The Panel recalls that the standard of examination is based on "effective equality of opportunities". It follows that the nationals that are relevant to an examination under Article 3.1 of the TRIPS Agreement should be those who seek opportunities with respect to the same type of

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<sup>198</sup> Appellate Body report on *Korea – Various Measures on Beef*, para. 137. This view is also consistent with the findings of the Appellate Body in its report on *EC – Bananas III* with respect to the phrase "treatment no less favourable" as used in the MFN obligation in relation to trade in services in Article II of GATS, at para. 233.

<sup>199</sup> Panel report on *Canada – Pharmaceutical Patents*, at paras. 7.100-7.105.

intellectual property in comparable situations.<sup>200</sup> On the one hand, this excludes a comparison of opportunities for nationals with respect to different categories of intellectual property, such as GIs and copyright. On the other hand, no reason has been advanced as to why the equality of opportunities should be limited *a priori* to rights with a territorial link to a particular Member.<sup>201</sup>

7.182 The Panel therefore considers it appropriate for the purposes of this claim to compare the effective equality of opportunities for the group of nationals of other Members who may wish to seek GI protection under the Regulation and the group of the European Communities' own nationals who may wish to seek GI protection under the Regulation. On this approach, there is no need to make a factual assumption that every person who wishes to obtain protection for a GI in a particular Member is a national of that Member.<sup>202</sup>

7.183 The European Communities disagrees with this approach. It argues that the concept of *de facto* discrimination should be limited to cases of circumvention of obligations, which is unnecessary in this dispute because of the applicability of the national treatment obligation under GATT 1994.<sup>203</sup>

7.184 The Panel is mindful of the need to ensure a harmonious interpretation of the national treatment obligation within the TRIPS Agreement itself as applied to different intellectual property rights. The fact that circumvention of that obligation may be prevented, uniquely, under GATT 1994 in certain cases concerning geographical indications, does not justify a different interpretation of Article 3.1 of the TRIPS Agreement from that which would be applicable to all other intellectual property rights, which do not have an inherent link to the territorial origin of a product. The Panel's interpretation preserves internal coherence in the interpretation of national treatment under the TRIPS Agreement.

Comparison of treatment accorded to the nationals of other Members and that accorded to the European Communities' own nationals

7.185 Articles 5 through 7 of the Regulation set out a registration procedure for GIs that refer to a geographical area located within the territory of the European Communities.<sup>204</sup> Articles 12a and 12b

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<sup>200</sup> The Appellate Body in *EC – Asbestos* adopted an analogous approach to the term "like" products in Article III:4 of GATT 1994, which it interpreted in terms of the competitive relationship between products: see its report at para. 99.

<sup>201</sup> See the European Communities' responses to Panel question Nos. 25, 101 and 103.

<sup>202</sup> The Panel notes that its approach based on the respective treatment accorded to groups (of nationals) is consistent with an approach based on the respective treatment accorded to groups (of products) contemplated by the Appellate Body in *EC – Asbestos*, in the context of the national treatment obligation in Article III:4 of GATT 1994:

"(...) A complaining Member must still establish that the measure accords to the group of 'like' *imported* products 'less favourable treatment' than it accords to the group of 'like' *domestic* products. The term 'less favourable treatment' expresses the general principle, in Article III:1, that internal regulations 'should not be applied ... so as to afford protection to domestic production'. If there is 'less favourable treatment' of the group of 'like' imported products, there is, conversely, 'protection' of the group of 'like' domestic products. However, a Member may draw distinctions between products which have been found to be 'like', without, for this reason alone, according to the group of 'like' *imported* products 'less favourable treatment' than that accorded to the group of 'like' *domestic* products. (...)" at para. 100.

<sup>203</sup> European Communities' rebuttal submission, para. 49; response to Panel question No. 29.

<sup>204</sup> This is reflected in the fact that under Article 5(4) an application under the procedures set out in Articles 5 through 7 shall be sent to the EC member State in which the geographical area is located but under Article 12a(1) an application under the procedures set out in Articles 12a and 12b shall be sent to the authorities in the country in which the geographical area is located. This was confirmed by the European Communities in its response to Panel question No. 2.



set out a registration procedure for GIs that refers to geographical areas located in third countries, including WTO Members. The conditions in Article 12(1) only apply to the latter procedures and, hence, only to GIs that refer to geographical areas located in third countries.

7.186 There is a link between the location of a geographical area to which a GI refers and certain persons. Article 5(1) and 5(2) provides that the following persons may apply for registration of a GI:

1. Only a group or, subject to certain conditions to be laid down in accordance with the procedure provided for in Article 15<sup>205</sup>, a natural or legal person, shall be entitled to apply for registration.

For the purposes of this Article, 'Group' means any association, irrespective of its legal form or composition, of producers and/or processors working with the same agricultural product or foodstuff. Other interested parties may participate in the group.

2. A group or a natural or legal person may apply for registration only in respect of agricultural products or foodstuffs which it produces or obtains within the meaning of Article 2(2)(a) or (b).

7.187 These definitions of applicants cross-refer to the definitions of designations of origin and geographical indications in the Regulation in Article 2(2)(a) and (b), which provide as follows:

"2. For the purposes of this Regulation:

- (a) *designation of origin*: means the name of a region, a specific place or, in exceptional cases, a country, used to describe an agricultural product or a foodstuff:
  - originating in that region, specific place or country, and
  - the quality or characteristics of which are essentially or exclusively due to a particular geographical environment with its inherent natural and human factors, and the production, processing and preparation of which take place in the defined geographical area;
- (b) *geographical indication*: means the name of a region, a specific place or, in exceptional cases, a country, used to describe an agricultural product or a foodstuff:
  - originating in that region, specific place or country, and
  - which possesses a specific quality, reputation or other characteristics attributable to that geographical origin and the production and/or processing and/or preparation of which take place in the defined geographical area."

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<sup>205</sup> The European Commission has laid down in Article 1 of Commission Regulation (EEC) No. 2037/93 that applications for registration pursuant to Article 5 of Regulation (EEC) No. 2081/92 may be submitted by a natural or legal person not complying with the definition in the second subparagraph of Article 5(1) in exceptional, duly substantiated cases where the person concerned is the only producer in the geographical area defined at the time the application is submitted.

7.188 Registration confers certain protection, but only agricultural products or foodstuffs that comply with a specification are eligible to "use" a registered GI. Article 4(2) sets out the minimum requirements which must be included in a product specification, which include *inter alia* "evidence that the agricultural product or the foodstuff originates in the geographical area", "a description of the method of obtaining the agricultural product or foodstuff and, if appropriate, the authentic and unvarying local methods" and "the details bearing out the link with the geographical environment or the geographical origin" (from items (d), (e) and (f), respectively). Any person, and not merely the applicant, that produces or obtains the products in accordance with the specification in the registration is entitled to use the GI.

7.189 These provisions create a link between persons, the territory of a particular Member, and the availability of protection. The definition of a "designation of origin" requires that the applicant and users must produce, process and prepare the products covered by a registration in the relevant geographical area, whilst the definition of a "geographical indication" requires that the applicant and users must carry out at least one, or some combination, of these three activities in the geographical area, and must do so in accordance with a specification.

7.190 Accordingly, insofar as the Regulation discriminates with respect to the availability of protection between GIs located in the European Communities, on the one hand, and those located in third countries, including WTO Members, on the other hand, it formally discriminates between those persons who produce, process and/or prepare a product in accordance with a specification, in the European Communities, on the one hand, and those persons who produce, process and/or prepare a product in accordance with a specification, in third countries, including WTO Members, on the other hand.

7.191 The Panel recalls its finding in paragraph 7.182 that it is appropriate for the purposes of this dispute to compare the treatment accorded to the group of nationals of other Members who may wish to seek GI protection under the Regulation and the group of the European Communities' own nationals, who may wish to seek GI protection under the Regulation.

7.192 The United States argues that there is an extremely close fit between a distinction based on where a legal person is established and producing agricultural products and foodstuffs, and a distinction based on nationality.<sup>206</sup>

7.193 The European Communities does not deny this. It relies on the fact that the Regulation itself contains no legal obstacle to foreign nationals taking advantage of EC geographical indications and disputes that any person who is producing a product must *necessarily* have the nationality of the place where the product is produced.<sup>207</sup> However, in the Panel's view, that is not dispositive of the issue.

7.194 The Panel agrees that the vast majority of natural and legal persons who produce, process and/or prepare products according to a GI specification within the territory of a WTO Member party to this dispute will be nationals of that Member. The fact that there may be cases where such a person does not qualify as a national – and none has been brought to its attention – does not alter the fact that the distinction made by the Regulation on the basis of the location of a GI will operate in practice to discriminate between the group of nationals of other Members who wish to obtain GI protection, and the group of the European Communities' own nationals who wish to obtain GI protection, to the detriment of the nationals of other Members. This will not occur as a random outcome in a particular case but as a feature of the design and structure of the system. This design is evident in the Regulation's objective characteristics, in particular, the definitions of "designation of origin" and

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<sup>206</sup> United States' response to Panel question No. 102. Brazil and Canada expressed the same view: see Annex C, paras. 24 and 47.

<sup>207</sup> European Communities' comment on US responses to Panel question Nos. 102 and 103.

"geographical indication" and the requirements of the product specifications. The structure is evident in the different registration procedures.

7.195 Complete data on the persons who have actually availed themselves of protection under the Regulation is not available. Any person who produces, processes and/or prepares a product according to the specification in a GI registration is entitled to use the GI. Data on the persons who have applied for, and obtained, protection under the Regulation and their respective addresses is available but their nationality is not recorded. However, there is no clear evidence that even a single person who has applied for or is entitled to use a registered GI is not one of the European Communities' own nationals.

7.196 Whilst certain of the European Communities' own nationals may wish to obtain protection for GIs located outside the European Communities as well, it cannot seriously be contested that the GIs for which nationals of other WTO Members would wish to obtain protection are overwhelmingly located outside the European Communities. This is supported by evidence presented by the United States showing that the nationality of certain French, German, Italian, Spanish and U.S. holders of certification marks for principally place names registered in the United States is that of the country in which the relevant geographical area is located.<sup>208</sup>

7.197 The European Communities presented evidence intended to show that certain foreign nationals have actually obtained protection under the Regulation. The Panel notes that all its examples consist of a foreign national, or a corporation incorporated under the laws of an EC member State, that acquired another corporation incorporated under the laws of an EC member State, which produces products entitled to GI protection.<sup>209</sup> Those subsidiary corporations obtaining the benefit of protection appear to be the European Communities' own nationals, according to a place of incorporation test. Evidence is not available on the place of their company seat but such cases appear to be rare. This evidence confirms, rather than contradicts, the link between the treatment accorded to GIs located in the European Communities and EC nationality.

7.198 The text of the TRIPS Agreement contains a recognition that discrimination according to residence and establishment will be a close substitute for nationality. The criteria set out in footnote 1 to the TRIPS Agreement are clearly intended to provide close substitute criteria to determine nationality where criteria to determine nationality as such are not available in a Member's domestic law. These criteria are "domicile" and "real and effective industrial or commercial establishment". They are taken from the criteria used for the assimilation of nationals in Article 3 of the Paris Convention (1967). It is clear that, in using these terms, the drafters of footnote 1 of the TRIPS Agreement chose terms that were already understood in this pre-existing intellectual property convention. Under Article 3 of the Paris Convention (1967), "domicile" is not generally understood to indicate a legal situation, but rather a more or less permanent residence of a natural person, and an

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<sup>208</sup> Set out in Exhibit US-43. Some of these marks relate to wines which are not a product covered by the Regulation at issue. This does not imply any view as to whether certification marks are an adequate means of protecting GIs.

<sup>209</sup> The evidence is as follows: Mr. Jens-Reidar Larsen, a Norwegian national, acquired a French cognac firm in 1928. Cognac is not a product covered by the Regulation at issue; Sara Lee Personal Products SpA, an Italian corporation under common control with Sara Lee Charcuterie SA, a French corporation belonging to the Sara Lee group, acquired Al Ponte Prosciutto SRL, an Italian corporation; Kraft Foods Group, which has an Italian subsidiary, acquired the business of Giovanni Invernizzi, an Italian, and partly sold it to Lactalis, a French dairy company with an Italian subsidiary; Nestlé sold Vismara, a salami firm, to an Italian company. The persons who acquired GI protection in these three examples may all be the European Communities' own nationals. The European Communities also refers to the website of a private beer label collector who disclaims accuracy but suggests that a Belgian company used to produce a beer with a German GI, possibly before the Regulation entered into force. The Panel considers this example unreliable. See Exhibits EC-36, EC-61, EC-62, EC-63 and EC-89 and the United States' response to Panel question No. 102.

actual headquarters of a legal person. A "real and effective industrial and commercial establishment" is intended to refer to all but a sham or ephemeral establishment.<sup>210</sup>

7.199 The object and purpose of the TRIPS Agreement depends on the obligation in Article 1.3 to accord the treatment provided for in the Agreement to the nationals of other Members, including national treatment under Article 3.1. That object and purpose would be severely undermined if a Member could avoid its obligations by simply according treatment to its own nationals on the basis of close substitute criteria, such as place of production, or establishment, and denying treatment to the nationals of other WTO Members who produce or are established in their own countries.

7.200 Further, the Panel recalls its finding at paragraph 7.182 and considers that Article 3.1 calls for a comparison of the effective equality of opportunities for the group of nationals of other Members who may wish to seek GI protection under the Regulation and the group of the European Communities' own nationals who may wish to seek GI protection under the Regulation. An objective assessment of that comparison cannot ignore the difference in treatment between quadrants 1 and 2 and quadrants 3 and 4 in the graphic set out earlier.

7.201 The Panel also notes that the close link between nationality, on the one hand, and residence and establishment, on the other, appears to be recognized in the Regulation itself. Article 12d of the Regulation accords a right of objection to persons, which the European Communities confirms is a reference to persons resident or established outside the European Communities, regardless of their nationality.<sup>211</sup> Yet the April 2003 amending Regulation, which inserted Article 12d, explained that it granted the right of objection to the *nationals* of other WTO Members.<sup>212</sup>

7.202 The European Communities argues that any difference in treatment of the nationals of other Members is not attributable to the Regulation. In its view, if a person sets up a legal entity in the area where the GI is located, "[i]t is simply a practical consequence of the fact that products have to be produced in accordance with the product specification, which may require that an important part of the production process takes place in the geographical area concerned." It argues that if, for practical considerations related for instance to taxation or labour law, a person producing in conformity with a product specification chooses to set up a legal entity in the area where the geographical area is located, this is not related to the Regulation.<sup>213</sup>

7.203 The Panel considers that this constitutes part of the fundamental thrust and effect of the Regulation, including its practical implications, and that therefore it must be taken into account in assessing whether the Regulation accords less favourable treatment. Whilst the Regulation does not prevent a foreign national from producing goods within the territory of the European Communities which would be entitled to use a GI, the implications of its design and structure on the opportunities for protection are such that its different procedures will operate to accord different treatment to the European Communities' own nationals and to the nationals of other Members, to the detriment of the nationals of other Members.<sup>214</sup>

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<sup>210</sup> Bodenhausen, *supra* at note 66, p. 33, citing Ladas, *The International Protection of Industrial Property*, pp. 187-188, and Roubier, *Le Droit de la propriété industrielle I*, pp. 268-269. This is confirmed by the Official Records of the Paris Convention provided to the Panel by the International Bureau of WIPO and quoted in Bodenhausen, *ibid.*, p. 34.

<sup>211</sup> European Communities' first written submission, para. 142.

<sup>212</sup> See paragraph 10 of the recitals to the April 2003 amending Regulation, set out in para. 7.70 above.

<sup>213</sup> European Communities' second oral statement, paras. 29-30; response to Panel question No. 107.

<sup>214</sup> Article 8a of the EC Treaty provides that every citizen of the European Union shall have the right to move and reside freely within the territory of the EC member States. Article 52 (in conjunction with Article 58) provides for the progressive abolition of restrictions on the freedom of establishment of nationals of an EC member State. These provisions remove obstacles to persons who wish to produce products according to a GI

7.204 Accordingly, the Panel's preliminary conclusion is that, with respect to the availability of protection, the treatment accorded to the group of nationals of other Members is different from, and less favourable than, that accorded to the European Communities' own nationals.

Defences based on systemic considerations

7.205 The European Communities argues that the interpretation of the national treatment obligations in the TRIPS Agreement and GATT 1994 should not lead to "systematic overlap" between them.

7.206 The Panel notes that the demonstration of less favourable treatment under each agreement remains a distinct exercise since national treatment under Article 3.1 of the TRIPS Agreement ensures effective equality of opportunities for nationals with regard to the protection of intellectual property rights, whereas national treatment under GATT 1994 ensures equality of conditions of competition between products.<sup>215</sup>

7.207 The European Communities also argues that one must take account of the absence in the TRIPS Agreement of a general exceptions provision analogous to Article XX of GATT 1994.

7.208 The Panel notes that there is no hierarchy between the TRIPS Agreement and GATT 1994, which appear in separate annexes to the WTO Agreement. The ordinary meaning of the texts of the TRIPS Agreement and GATT 1994, as well as Article II:2 of the WTO Agreement, taken together, indicates that obligations under the TRIPS Agreement and GATT 1994 can co-exist and that one does not override the other. This is analogous to the finding of the Panel in *Canada – Periodicals*, with which the Appellate Body agreed, concerning the respective scopes of GATS and GATT 1994.<sup>216</sup> Further, a "harmonious interpretation" does not require an interpretation of one that shadows the contours of the other. It is well established that the covered agreements apply cumulatively and that consistency with one does not necessarily imply consistency with them all.<sup>217</sup>

7.209 More specifically, the Panel notes that Article 8 of the TRIPS Agreement sets out the principles of that agreement. Article 8.1 provides as follows:

"1. Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this Agreement."

7.210 These principles reflect the fact that the TRIPS Agreement does not generally provide for the grant of positive rights to exploit or use certain subject matter, but rather provides for the grant of negative rights to prevent certain acts. This fundamental feature of intellectual property protection inherently grants Members freedom to pursue legitimate public policy objectives since many measures to attain those public policy objectives lie outside the scope of intellectual property rights and do not require an exception under the TRIPS Agreement.

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specification within the territory of the European Communities, but apply to the European Communities' own nationals only.

<sup>215</sup> See the Appellate Body report on *Korea – Various Measures on Beef*, paras. 137 and 144 and the GATT Panel report on *US – Section 337*, para. 5.11.

<sup>216</sup> Panel report on *Canada – Periodicals*, at para. 5.17; Appellate Body report on *Canada – Periodicals*, DSR 1997:I, 449, at 465.

<sup>217</sup> See, for example, the Appellate Body report on *Argentina – Footwear (EC)*, para. 81; the Appellate Body report on *Korea – Dairy*, para. 74; and the Panel reports in *EC – Bananas III*, para. 7.160.

7.211 The scope of the national treatment obligation in Article 3.1 of the TRIPS Agreement also differs from that of the national treatment obligation in Article III:4 of GATT 1994, as it is subject to certain exceptions in Articles 3.1, 3.2 and 5, one of which is inspired by the language of Article XX of GATT 1994.<sup>218</sup> There is also a series of specific exceptions in the provisions relating to the minimum standards in Part II of the TRIPS Agreement and Part VII contains a provision on security exceptions analogous to Article XXI of GATT 1994, but none on general exceptions.

7.212 For all these reasons, in the Panel's view, the fact that a general exceptions provision analogous to Article XX of GATT 1994 was not included in the TRIPS Agreement has no impact on its analysis of Article 3.1.

#### Conclusion with respect to Article 3.1 of the TRIPS Agreement

7.213 Therefore, the Panel concludes that, with respect to the equivalence and reciprocity conditions, as applicable to the availability of GI protection, the Regulation accords treatment to the nationals of other Members less favourable than that it accords to the European Communities' own nationals, inconsistently with Article 3.1 of the TRIPS Agreement.

#### Article 2 of the Paris Convention (1967)

7.214 The United States also makes claims under the national treatment obligation set out in Article 2 of the Paris Convention (1967). These claims are made under paragraphs 1 and 2 of that article, which provide as follows:

(1) Nationals of any country of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the advantages that their respective laws now grant, or may hereafter grant, to nationals; all without prejudice to the rights specially provided for by this Convention. Consequently, they shall have the same protection as the latter, and the same legal remedy against any infringement of their rights, provided that the conditions and formalities imposed upon nationals are complied with.

(2) However, no requirement as to domicile or establishment in the country where protection is claimed may be imposed upon nationals of countries of the Union for the enjoyment of any industrial property rights.

7.215 The text refers to the "countries of the Union" for the purposes of identifying States which bear the obligation to accord national treatment under that provision. However, Article 2.1 of the TRIPS Agreement obliges WTO Members to comply with Articles 1 through 12, and Article 19, of that Convention.<sup>219</sup> Therefore, as a WTO Member, the European Communities owes obligations under Article 2 of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement.

7.216 With respect to the claim under paragraph 1 of Article 2 of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement, the Panel observes that, unlike Article 3.1 of the TRIPS Agreement, Article 2(1) of the Paris Convention (1967) refers to "the advantages that ... laws now grant, or may hereafter grant" and not to "no less favourable" treatment. Therefore, the Panel has

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<sup>218</sup> Article 24.9 of the TRIPS Agreement also provides that there shall be no obligation under the TRIPS Agreement to protect geographical indications which are not or cease to be protected in their country of origin, or which have fallen into disuse in that country.

<sup>219</sup> The Appellate Body report on *US – Section 211 Appropriations Act* also notes that the obligations of countries of the Paris Union under the Paris Convention (1967) are also obligations of WTO Members by virtue of Article 2.1 of the TRIPS Agreement, para. 125.

not actually reached a conclusion on this claim. However, further findings on this claim would not provide any additional contribution to a positive solution to this dispute and are therefore unnecessary.

7.217 With respect to the claim under paragraph 2 of Article 2 of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement, the Panel does not consider that the Regulation contains a requirement of domicile or establishment.<sup>220</sup> We have found that the design and structure of the Regulation will operate to ensure that persons who use a protected GI, located in the European Communities, will have a domicile or establishment within the territory of the European Communities. We have also found that the availability of protection for GIs located in third countries, including WTO Members, is dependent on whether the third country in which the GI is located satisfies the conditions of equivalence or reciprocity or enters into an international agreement with the European Communities. It is irrelevant to the protection of a GI located in a third country whether or not the person who seeks protection has a domicile or establishment in the European Communities.

7.218 Therefore, the Panel concludes that, with respect to the availability of protection, the Regulation does not impose a requirement as to domicile or establishment inconsistently with Article 2(2) of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement.

(c) National treatment under GATT 1994

(i) *Main arguments of the parties*

7.219 The **United States** claims that the Regulation is inconsistent with Article III:4 of GATT 1994 because it imposes conditions of *reciprocity* and *equivalence* on the benefits of registration. It argues that the Regulation applies to products from the European Communities and third countries which are *like products* because the only difference between products that do, and do not, benefit from registration without conditions of reciprocity and equivalence, is their origin in the European Communities or a third country.<sup>221</sup> It argues that the Regulation is a measure *affecting the internal sale, offering for sale, purchase, distribution or use* of the imported product because it governs the manner in which registered names can be used on products which are sold, offered for sale, purchased, distributed or used, it governs use of the logo which allegedly provides competitive advantages and it provides protection for products that qualify for registered GIs broad protections against competitive and disparaging uses and against their names becoming generic.<sup>222</sup>

7.220 The United States argues that the Regulation accords *less favourable treatment* to imported products because it does not permit registration of GIs on the same conditions as those for products from the European Communities but imposes substantial and often insurmountable additional conditions.<sup>223</sup> The Regulation is motivated by the European Communities' belief that producers of products with GI protection fare much better in the marketplace than those whose products do not have such protection.<sup>224</sup> Registration permits use of the GI and the logo and provides broad protection against competing and disparaging uses and against their names becoming generic.<sup>225</sup> The effects of registration, listed in Article 13(1) of the Regulation, authorize judicial and administrative authorities to issue orders preventing all other products from being promoted or sold accompanied by names or labels that fall within the scope of the registration. These include removal of terms that evoke the

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<sup>220</sup> The Panel recalls its findings at para. 7.198 above on the meaning of those terms as understood under Article 3 of the Paris Convention (1967).

<sup>221</sup> United States' first written submission, paras. 99-100.

<sup>222</sup> United States' first written submission, paras. 101-102.

<sup>223</sup> United States' response to Panel question No. 109.

<sup>224</sup> United States' first written submission, para. 97.

<sup>225</sup> United States' first written submission, paras. 103-105.

protected GI, which may be an important selling point for the imported product. Another effect of registration, mentioned in Article 13(3) of the Regulation, prevents names becoming generic and thereby losing their status as an identifier of source.<sup>226</sup> The Regulation itself indicates that both the intent and the effect of the Regulation is to provide competitive benefits to products that satisfy the registration criteria.<sup>227</sup>

7.221 The **European Communities** responds that the Regulation is fully compatible with Article III:4 of GATT 1994. It does not contest that products from the European Communities and from third countries falling under the scope of the Regulation may be *like products*, although it stresses that this alone does not preclude the European Communities from applying the conditions for registration to individual GIs.<sup>228</sup> It does not contest that the Regulation is a measure *affecting the internal sale of products*.<sup>229</sup>

7.222 The European Communities argues that the Regulation does not accord *less favourable treatment* to imported products because it does not apply the conditions in Article 12(1) to the registration of GIs from other WTO Members.<sup>230</sup> It concedes that the application of those conditions would prejudice its obligations under Article III:4 of GATT 1994.<sup>231</sup>

(ii) *Main arguments of third parties*

7.223 **Brazil** argues the GATT- and WTO- underlying principle of national treatment would be completely voided of any meaning if it were made conditional on requirements of reciprocity and adoption of equivalent legislation.<sup>232</sup>

7.224 **China** argues that the different treatment accorded to GIs by the Regulation will amount to less favourable treatment if it is found to modify the conditions of competition under which like imported and EC products compete in the EC market to the disadvantage of imported products.<sup>233</sup>

7.225 **New Zealand** considers that the complainants have demonstrated all three elements constituting a violation of Article III:4 of GATT 1994. The only issue under debate is whether the Regulation confers "less favourable treatment" on imported products. As the same phrase is used in Article 3.1 of the TRIPS Agreement, all arguments raised under that claim apply equally here.<sup>234</sup>

(iii) *Consideration by the Panel*

7.226 The Panel notes that the European Communities concedes that the conditions of equivalence and reciprocity in Article 12(1) of the Regulation, if applied to WTO Members, are inconsistent with Article III:4 of GATT 1994.<sup>235</sup> Given that the Panel has found that the Regulation "as such" imposes those conditions on the registration of GIs located in other WTO Members, there is no longer any defence before the Panel to the claim that, in this respect, the Regulation is inconsistent with Article III:4 of GATT 1994. It suffices to recall below that the essential elements of an inconsistency with Article III:4 are all met in this claim. These elements are the following: that the imported and domestic products at issue are "like products"; that the measure at issue is a "law, regulation, or

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<sup>226</sup> United States' response to Panel question No. 108.

<sup>227</sup> United States' response to Panel question No. 32.

<sup>228</sup> European Communities' first written submission, paras. 195-197.

<sup>229</sup> European Communities' first written submission, para. 194.

<sup>230</sup> European Communities' first written submission, para. 203; rebuttal submission, para. 212.

<sup>231</sup> European Communities' response to Panel question No. 94.

<sup>232</sup> Annex C, para. 25.

<sup>233</sup> Annex C, para. 95.

<sup>234</sup> Annex C, para. 141.

<sup>235</sup> European Communities' response to Panel question No. 94(a).



requirement affecting their internal sale, offering for sale, purchase, transportation, distribution, or use"; and that the imported products are accorded "less favourable" treatment than that accorded to like domestic products.<sup>236</sup>

7.227 The Regulation sets down requirements concerning the use of certain names in the presentation for sale of agricultural products and foodstuffs.<sup>237</sup> It is therefore a law or regulation affecting the internal sale and offering for sale of products within the meaning of Article III:4 of GATT 1994. This is not altered by the fact that the Regulation is also an intellectual property measure covered by the TRIPS Agreement since GATT 1994 and the TRIPS Agreement apply cumulatively.<sup>238</sup>

7.228 The Regulation links the protection of the name of a product to the territory of a particular country.<sup>239</sup> In the case of "designations of origin", as defined in Article 2 of the Regulation, this is the place of production, processing and preparation of the product and, in the case of "geographical indications", as defined in Article 2 of the Regulation, this is the place of production, processing and/or preparation. It is not disputed that in most cases these criteria are sufficient to confer origin on the products. Given that the Panel has found that the protection of names of products from other WTO Members is contingent on satisfaction of certain conditions of equivalence and reciprocity that do not apply to the names of products from the European Communities, the Regulation formally discriminates between imported products and products of European Communities origin within the meaning of Article III:4 of GATT 1994.

7.229 The Regulation applies to the names of a wide class of products described in Article 1(1), which refers to the large number of agricultural products intended for human consumption referred to in Annex 1 to the EC Treaty as well as 13 additional types of agricultural products and foodstuffs listed in the annexes to the Regulation. The European Communities does not contest that there are, among this group, "like products" among the imported products and products of European Communities origin. The European Communities and other WTO Members produce the same types of covered agricultural products and foodstuffs with GIs that may be eligible for protection. Article 13(1)(a) of the Regulation provides that protection is provided against use of a name in respect of products "comparable to the products registered under that name". It is axiomatic that one must compare apples with apples and oranges with oranges. In this dispute, it is not contested that Tasmanian apples may be like *pommes de Savoie*<sup>240</sup> and Florida citrus may be like *cítricos valencianos*<sup>241</sup> for the purposes of Article III:4 of GATT 1994.

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<sup>236</sup> These three elements are also set out in the Appellate Body report on *Korea – Various Measures on Beef* at para. 133.

<sup>237</sup> Article 1(1) of the Regulation provides that it "lays down rules on the protection of designations of origin and geographical indications of agricultural products ... and of ... foodstuffs ..." and Commission Regulation (EEC) No. 2037/93 sets out detailed rules on the application of the Regulation, including use of the PDO and PGI logos in the promotion of products (see Exhibit COMP-2). Article 13(1) of the Regulation sets out uses against which registered names are protected.

<sup>238</sup> The Panel recalls its comment on the order of analysis in para. 7.36 and its findings in para. 7.208, that there is no hierarchy between GATT 1994 and the TRIPS Agreement, which appear in separate annexes to the WTO Agreement. Further, an intellectual property measure was the subject of conclusions under Article III:4 of GATT 1947 in the GATT Panel report on *US – Section 337*. The Panel does not consider that the conclusion of the TRIPS Agreement reduced the scope of application of GATT: see, on the same point with respect to GATS, the Appellate Body report on *Canada – Periodicals*, DSR 1997:I, 449, at 465.

<sup>239</sup> Exceptionally, it may extend across a border of more than one country, see Articles 5(5) and 12a(1) of the Regulation.

<sup>240</sup> Registered by Commission Regulation (EC) No. 1107/96, p. 13, Exhibit COMP-3a.

<sup>241</sup> Registered by Commission Regulation (EC) No. 865/2003, Exhibit COMP-4b.i.

7.230 In our analysis of the question of "less favourable treatment", we follow the approach of the Appellate Body in *Korea – Various Measures on Beef* and *US – FSC (Article 21.5 – EC)* that this standard should be assessed under Article III:4 of GATT 1994 by examining whether the measures at issue modify the conditions of competition between domestic and imported products in the relevant market to the detriment of imported products. This examination must closely scrutinize the "fundamental thrust and effect of the measure itself" founded on a careful analysis of the contested measure and of its implications in the marketplace.<sup>242</sup>

7.231 The Regulation provides in Article 13 that registered GIs shall be protected against certain commercial uses and other practices. Registration provides the legal means to prevent the sale and offering for sale of products, including competitive products, where they use, imitate or evoke a registered GI, which is a substantive advantage conferred on products that comply with the GI registration. Registration does not grant a right to exclude competition, or deny the possibility of sale without a registered GI but, where products, including competitive products, bear an indication that falls within the protection granted by registration, they may be removed from sale. This is a substantive advantage that affects the conditions of competition of the relevant products.

7.232 The declared purposes of the Regulation set out in its preamble include the following, which links GIs to demand for products:

"Whereas, moreover, it has been observed in recent years that consumers are tending to attach greater importance to the quality of foodstuffs rather than to quantity; whereas this quest for specific products generates a growing demand for agricultural products or foodstuffs with an identifiable geographical origin;"

7.233 Agricultural products and foodstuffs from the European Communities may obtain this advantage where they satisfy the eligibility criteria in the Regulation. Like products imported from WTO Members that the Commission has not decided meet the equivalence and reciprocity conditions in Article 12(1) of the Regulation – which is all of them – are not able to obtain that advantage and, hence, are accorded less favourable treatment. Products from WTO Members which can satisfy the equivalence and reciprocity conditions in Article 12(1) still face an "extra hurdle" in obtaining the advantage of registration since the Commission must decide that their country of origin meets those conditions – a step which is not required of like products from the European Communities. This is also less favourable treatment.

7.234 The United States cites other alleged advantages conferred by registration. It refers to the entitlement to use the indications "PDO" and "PGI" and a Community symbol or logo with products that comply with a registration.<sup>243</sup> The graphic manual annexed to the rules under the Regulation states *inter alia* that "[t]he logo will allow producers of food products to increase awareness of their products among consumers in the European Union"; that the logo provides producers with "a marketing tool"; and that, because of the logo, "products will inspire more confidence".<sup>244</sup> The United States also cites the preamble to the Regulation which refers to higher incomes for producers from the promotion of their products as one of the justifications for protection.

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<sup>242</sup> See the Appellate Body report on *Korea – Various Measures on Beef*, paras. 137 and 142; and also *US – FSC (Article 21.5 – EC)*, para. 215, quoted at para. 7.136 above.

<sup>243</sup> Under Article 8 of the Regulation and the detailed rules of application of the Regulation in Exhibit COMP-2.

<sup>244</sup> Exhibit COMP-2.

7.235 The European Communities does not contest that these are benefits of protection under the Regulation, and also refers to the right to use the designation and logo under Article 8 and the possibility of excluding others from use of the GI under Article 13.<sup>245</sup>

7.236 The United States submits a powerpoint presentation prepared by the European Commission which lists some random facts on the prices of certain products with protected names, the results of an opinion poll on consumer perceptions conducted by a group of nougat producers, and economic data contrasting cheese production in Franche-Comté and Emmental.<sup>246</sup> It is not clear to what extent the advantages illustrated in this data flow from the protection of the indications or from better marketing, increased advertising and superior product quality. In any event, in view of the significant competitive advantage conferred under Article 13 of the Regulation, it is unnecessary to determine the weight to be given to this evidence.

7.237 Lastly, the Panel notes that there is the possibility that a WTO Member could conclude an international agreement with the European Communities for the protection of specific GIs for its agricultural products and foodstuffs. It is not in dispute that this possibility would provide less favourable treatment to imported agricultural products and foodstuffs than the procedure for the registration of GIs provides for agricultural products and foodstuffs from the European Communities.

7.238 Therefore, the Panel concludes that, with respect to the equivalence and reciprocity conditions, as applicable to the availability of protection, the Regulation accords less favourable treatment to imported products, inconsistently with Article III:4 of GATT 1994.<sup>247</sup>

7.239 The European Communities has not asserted that, with respect to the availability of protection, the Regulation is justified by Article XX(d) of GATT 1994.<sup>248</sup>

## 2. Application procedures

(a) Description of application procedures under Articles 5 and 12a of the Regulation

7.240 The parties agree on the features of the application procedures under the Regulation. There are separate provisions setting out the procedures for applications for registration of GIs which apply according to the location of the GI.<sup>249</sup> Article 5 applies where the GI is located in an EC member State. Article 12a applies where the GI is located in a third country.

7.241 Article 5(4) and 5(5) provide, relevantly, as follows:

"4. The application shall be sent to the Member State in which the geographical area is located.

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<sup>245</sup> European Communities' rebuttal submission, para. 118.

<sup>246</sup> Exhibit US-44 cited in the United States' response to Panel question No. 32.

<sup>247</sup> This conclusion is without prejudice to the Panel's examination of the inspection structures required for registration, considered later in this report.

<sup>248</sup> See the European Communities' first written submission, paras. 224-225, in which it asserts Article XX(d) as a defence only in relation to Article 12a, in conjunction with Articles 4 and 10, of the Regulation. See also its rebuttal submission, paras. 228-242, and its second oral statement, paras. 132 and 135, in which it asserts Article XX(d) as a defence only with respect to inspections, application procedures and the labelling requirement. Despite broader references to the Regulation in its first written submission, para. 190, and first oral statement, para. 73, the European Communities did not provide any specific arguments in defence of the equivalence and reciprocity conditions under Article XX(d).

<sup>249</sup> For the sake of brevity, the Panel refers to a name that refers to a geographical area located in a Member as a GI located in that Member.

5. The Member State shall check that the application is justified and shall forward the application, including the product specification referred to in Article 4 and other documents on which it has based its decision, to the Commission, if it considers that it satisfies the requirements of this Regulation. [...]"

7.242 Article 12a(1) and 12a(2) provide, relevantly, as follows:

"1. In the case provided for in Article 12(3), if a group or a natural or legal person as referred to in Article 5(1) and (2) in a third country wishes to have a name registered under this Regulation it shall send a registration application to the authorities in the country in which the geographical area is located. [...]"

2. If the third country referred to in paragraph 1 deems the requirements of this Regulation to be satisfied it shall transmit the registration application to the Commission accompanied by:

(a) a description of the legal provisions and the usage on the basis of which the designation of origin or the geographical indication is protected or established in the country,

(b) a declaration that the structures provided for in Article 10 are established on its territory, and

(c) other documents on which it has based its assessment."

7.243 After an application is forwarded by an EC member State or a third country, Articles 6(1) and 12b(1) of the Regulation oblige the Commission to verify whether the registration application includes all the requisite particulars and satisfies the conditions for protection. There are differences in the drafting of Articles 6(1) and 12b(1) which relate, respectively, to applications forwarded by EC member States and those transmitted by third countries, which the United States has not put in issue.

(b) National treatment under the TRIPS Agreement

(i) *Main arguments of the parties*

7.244 The **United States** claims that the Regulation is inconsistent with Article 3.1 of the TRIPS Agreement and Article 2(1) of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement, because application procedures do not allow applications for registration in respect of geographical areas located in third countries to be filed directly with the competent authorities in Europe. This is *less favourable treatment* because the Regulation provides the direct means for EC nationals to apply through their EC member States to the Commission, whilst non-EC nationals who wish to file an application for registration of a GI located in their own country must petition their government to apply on their behalf.<sup>250</sup> The Regulation does not accord equal treatment because third country governments only comply voluntarily whereas EC member States have a legal obligation to do so.<sup>251</sup>

7.245 The United States argues that it is irrelevant whether the Regulation accords equal treatment to other WTO Members and EC member States because the TRIPS Agreement requires that no less

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<sup>250</sup> United States' first written submission, paras. 81-82; rebuttal submission, paras. 68 and 71.

<sup>251</sup> United States' rebuttal submission, para. 70.

favourable treatment be accorded to nationals of WTO Members.<sup>252</sup> Intellectual property rights are private rights.<sup>253</sup>

7.246 The United States argues that whilst it would probably not be too difficult to designate an office in the U.S. government to perform a purely ministerial act of transmitting documents to the Commission, it might be difficult for some Members and, in any event, the Regulation requires more than mere transmission of documents. Third country governments must *inter alia* determine that the application meets the Regulation's requirements and demonstrate how the GI is protected in its country of origin.<sup>254</sup> This is a substantial burden and involves an active role in the registration procedure in which the third country government must administer and enforce the Regulation on its own territory.<sup>255</sup> This is neither appropriate nor necessary and results in less favourable treatment.<sup>256</sup> Article 22.1 of the TRIPS Agreement does not require this.<sup>257</sup> Article 24.9 of the TRIPS Agreement does not justify this, because other systems of GI protection do not put the government in a better position than the right holder to provide information on protection in the country of origin.<sup>258</sup> This is a unilateral requirement that foreign governments verify compliance with the Regulation and not an example of international cooperation.<sup>259</sup>

7.247 The **European Communities** responds that this claim must fail. Its first defence is that the application procedures do not apply to nationality but according to the location of geographical areas. That defence has been considered above.

7.248 The European Communities argues that the application procedures do not accord *less favourable treatment* because the role of third country governments corresponds exactly to that of EC member States. The transmission of applications by governments in fact ensures equal treatment.<sup>260</sup> The authorities of third countries and EC member States are best placed to evaluate whether a GI fulfils the conditions for protection, which requires familiarity with a host of factors and may require knowledge of the market conditions in the country of origin. The evaluation of whether a GI is protected in the country of origin requires the implication of the authorities of the third country. Verification in a third country calls for respect for its sovereignty. Involvement of third country authorities facilitates cooperation during the registration process and should be of practical benefit to the applicant.<sup>261</sup>

7.249 The European Communities argues that the verification and transmission of an application are not overly burdensome for another WTO Member. Another WTO Member cannot invoke its own unwillingness to cooperate in the registration process in order to demonstrate a national treatment violation on the part of the European Communities.<sup>262</sup> There are many examples of international cooperation between governments in the protection of private rights including, in the field of intellectual property protection, such as the Madrid Protocol, the Lisbon Agreement and Article 6quinquiesA(1) of the Paris Convention, and in the fields of certificates of origin, technical standards, conformity assessment, transport, fisheries and judicial cooperation. These examples

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<sup>252</sup> United States' first oral statement, paras. 30-31.

<sup>253</sup> United States' first oral statement, para. 37.

<sup>254</sup> United States' first oral statement, para. 28 and response to Panel question No. 38. The third country government must also declare that the inspection structures are established on its territory. This is discussed in a later section of this report.

<sup>255</sup> United States' rebuttal submission, paras. 64-67.

<sup>256</sup> United States' rebuttal submission, para. 74.

<sup>257</sup> United States' second oral statement, para. 34.

<sup>258</sup> United States' second closing oral statement, para. 11-12.

<sup>259</sup> United States' second oral statement, para. 36; second closing oral statement, para. 13.

<sup>260</sup> European Communities' first written submission, para. 130.

<sup>261</sup> European Communities' response to Panel question No. 33; rebuttal submission, paras. 124-129.

<sup>262</sup> European Communities' first written submission, para. 131.

illustrate that in an increasingly interdependent world, the effective protection of individual rights in cross-border situations inevitably engenders a need for cross-border cooperation.<sup>263</sup>

7.250 The European Communities does not want to impose obligations on third countries, but the protection of GIs located in the territory of third countries depends on their cooperation. This is partially mandated by the definition of a GI in Article 22.1 of the TRIPS Agreement, which requires verification of whether certain characteristics of a good are essentially attributable to its geographical origin. This is an obligation for all Members and should normally facilitate the examination of whether the name fulfils the criteria in the Regulation. The description of how a GI is protected in its country of origin reflects the provision in Article 24.9 of the TRIPS Agreement. Even where there is no specific registration system in the country of origin, that is still a TRIPS requirement for the European Communities and a matter of foreign law.<sup>264</sup> The transmission of the application by the same government is not a significant extra burden.<sup>265</sup>

(ii) *Main arguments of third parties*

7.251 **Argentina, Brazil, India, Mexico, New Zealand and Chinese Taipei** all inform the Panel that they are not aware of any person ever having attempted to file with their respective authorities an application for registration under the Regulation.<sup>266</sup>

7.252 **Argentina** expresses uncertainty regarding the consistency of the application procedures with the characterization of intellectual property rights under the TRIPS Agreement, in that they require States to manage the registration of a GI instead of right holders who are private persons.<sup>267</sup>

7.253 **Brazil** argues that the application procedures require WTO Members to "pre-approve" applications before they forward them to the European Commission, which is a striking violation of the national treatment obligation in Article 3.1 of the TRIPS Agreement for two reasons: (1) this is an additional procedure for other WTO Members; and (2) the approval process must be conducted according to EC law, not the law of the other WTO Member.<sup>268</sup>

7.254 **China** argues that the provisions on verification and publication do not afford clarity. The procedures for EC member States and third countries are in parallel but are not the same in substance. The provisions on verification by, and transmission to, the Commission differ between the procedures which suggests that third countries must satisfy more than an EC member State.

7.255 **Colombia** expresses uncertainty as to whether the country of origin must in all cases provide a declaration under Article 12a(2) with a description of the legal provisions under which the GI is protected. This is, in practice, a condition which entails an evaluation of the system of GI protection in the country of origin contrary to Article 1.1 of the TRIPS Agreement.<sup>269</sup>

7.256 **Mexico** refers to cochineal as a practical example of the way in which Mexican producers would be required to go through specific procedures which EC nationals are not.<sup>270</sup>

7.257 **New Zealand** submits that, although the requirement to submit all applications through government applies equally to applications from EC member States and other WTO Member

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<sup>263</sup> European Communities' response to Panel question No. 37.

<sup>264</sup> European Communities' rebuttal submission, paras. 131-134; response to Panel question No. 114.

<sup>265</sup> European Communities' rebuttal submission, para. 139.

<sup>266</sup> See their respective comments in Annex C at paras. 18, 32, 103, 118, 160 and 179.

<sup>267</sup> Annex C, paras. 2-15.

<sup>268</sup> Annex C, para. 27.

<sup>269</sup> Annex C, para. 99.

<sup>270</sup> Annex C, paras. 115-117.

nationals, its effect is to disadvantage nationals from other WTO Members. EC nationals have an enforceable right that applications that satisfy the requirements of the Regulation are forwarded to the Commission. Submission of an application via an EC member State is essentially a formality. Other WTO Member nationals have no such enforceable right.<sup>271</sup>

(iii) *Consideration by the Panel*

7.258 These claims are made under Article 3.1 of the TRIPS Agreement and Article 2 of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement. The Panel will first consider the claim under Article 3.1 of the TRIPS Agreement.

7.259 The Panel recalls that two elements must be satisfied to establish an inconsistency with this obligation: (1) the measure at issue must apply with regard to the protection of intellectual property; and (2) the nationals of other Members must be accorded "less favourable" treatment than the Member's own nationals. The Panel will address each of these elements in turn.

Protection of intellectual property

7.260 This claim concerns procedures for filing and examination of applications for registration of "designations of origin and "geographical indications", as defined in the Regulation. They are referred to in this report, for the sake of brevity, as "application procedures".

7.261 The Panel recalls that the national treatment obligation in Article 3 of the TRIPS Agreement applies to the treatment accorded by a Member "with regard to the protection of intellectual property". Footnote 3 provides an inclusive definition of the term "protection" as used in Articles 3 and 4. It reads as follows:

"For the purposes of Articles 3 and 4, 'protection' shall include matters affecting the availability, acquisition, scope, maintenance and enforcement of intellectual property rights as well as those matters affecting the use of intellectual property rights specifically addressed in this Agreement."

7.262 Turning to the Regulation, procedures for the filing and examination of applications for registration are matters affecting the *acquisition* of intellectual property rights in relation to "designations of origin" and "geographical indications", as defined in the Regulation.

7.263 It is not disputed that "designations of origin" and "geographical indications", as defined in the Regulation, are a subset of "geographical indications", the subject of Section 3 of Part II, and therefore part of a category of intellectual property within the meaning of Article 1.2 of the TRIPS Agreement.

7.264 Therefore, this claim concerns the "protection" of intellectual property, as clarified in footnote 3 to the TRIPS Agreement, within the scope of the national treatment obligation in Article 3.1 of that Agreement.

Less favourable treatment accorded to the nationals of other Members

7.265 The Panel recalls its findings:

- (a) at paragraphs 7.185 to 7.190 as to the treatment accorded to the "nationals of other Members" under the Regulation by its treatment according to the location of GIs; and

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<sup>271</sup> Annex C, paras. 136-137.

- (b) at paragraph 7.134 that under Article 3.1 of the TRIPS Agreement we must examine the "effective equality of opportunities" with regard to the protection of intellectual property rights and at paragraph 7.137 that in this examination we will focus on the "fundamental thrust and effect" of the Regulation.

7.266 The parties and third parties who responded to the Panel's question on this point all reported that they were not aware of any application for the registration of a name of an area located in a third country outside the European Communities ever having been filed with the authorities of a third country.<sup>272</sup> However, the United States challenges the Regulation, in this respect, "as such".

7.267 The United States claims that the treatment accorded under the application procedures in Article 12a(1) and (2) is less favourable than that accorded under the applications procedures in Article 5(4) and (5). There is an apparent equivalence in the drafting of these provisions but the question is whether this would imply a modification of the effective equality of opportunities with regard to the protection of intellectual property.

7.268 The Panel notes that the initial steps in the application procedures can be broken down as follows.

- (a) as a first step, *all* applicants are required to submit their application to the authorities in the country in which the geographical area is located. These will be authorities of an EC member State or a third country, depending on the case;
- (b) as a second step, the authorities who receive an application consider whether the application is justified or satisfies the requirements of the Regulation. This involves a detailed examination of the application in accordance with the criteria in the EC Regulation, not the domestic law of the country where the application is filed; and
- (c) as a third step, if the authorities who receive an application consider that the application is justified or satisfies the requirements of the Regulation, they forward or transmit it to the Commission. If the application concerns a geographical area located outside the European Communities, the authorities must also transmit a description of the protection of the GI in its country of origin, as well as a declaration concerning inspection structures.<sup>273</sup>

7.269 We recall the European Communities' explanation of its domestic constitutional arrangements, set out at paragraph 7.98, that Community laws are generally not executed through authorities at Community level but rather through recourse to the authorities of its member States which, in such a situation, "act *de facto* as organs of the Community, for which the Community would be responsible under WTO law and international law in general".<sup>274</sup> It follows that any application relating to a geographical area located in an EC member State is filed directly with a *de facto* organ

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<sup>272</sup> However, the United States provided evidence from the Idaho Potato Commission that it could not obtain protection for its U.S. certification mark in the European Union. Its attorneys in three EC member States had advised that there were no steps it could take to stop use of the term "Idaho" by other companies in Europe: see testimony to the Committee on Agriculture in the U.S. House of Representatives of 22 July 2003, in response to Panel question No. 12, and reproduced in Exhibit US-38. The European Communities responds that this is based on a misperception of the content of the Regulation, that it does not contain evidence of an attempt to register a GI under the Regulation, and that it seems to relate more to the protection of trademarks than GIs: see its rebuttal submission, para. 85.

<sup>273</sup> For the purposes of this report, references to examination and transmission of "applications" include examination and transmission of these supporting documents. The declaration concerning inspection structures is considered later in this report.

<sup>274</sup> European Communities' second oral statement, para. 148.



of the Community" which also carries out the initial examination. An application relating to a geographical area located in a third country cannot be filed directly, but must be filed with a foreign government. This is a formal difference in treatment.

7.270 Further, Article 5 of the Regulation provides for application procedures for GIs located in the European Communities. Paragraph 6 provides as follows:

"6. Member States shall introduce the laws, regulations and administrative provisions necessary to comply with this Article."

7.271 An EC member State has an obligation to establish application procedures for the purposes of the Regulation. Under Community law, an EC member State has an obligation to examine an application and decide whether it is justified and, if it is justified, to forward it to the Commission. A group or person who submits an application in an EC member State may enforce these obligations through recourse to judicial procedures based on the Regulation. In contrast, a third country government has no obligation under Community law or any other law to examine an application or to transmit it or any other document to the Commission. A group or person who submits an application in a third country has no right to such treatment.

7.272 Therefore, applicants for GIs that refer to geographical areas located in third countries do not have a right in the application procedures that is provided to applicants for GIs that refer to geographical areas located in the European Communities. Applicants in third countries face an "extra hurdle" in ensuring that the authorities in those countries carry out the functions reserved to them under the Regulation, which applicants in EC member States do not face. Consequently, certain applications and requisite supporting documents may not be examined or transmitted. Each of these considerations significantly reduces the opportunities available to the nationals of other WTO Members in the acquisition of rights under the Regulation below those available to the European Communities' own nationals.

7.273 The European Communities submits that that "[t]he Regulation does not require anything that would be outside the scope of any WTO Member with a normally functioning government".<sup>275</sup> The Panel notes that, whilst a normally functioning government might have the capacity to carry out the first and third steps, it cannot be assumed that it would have the capacity to carry out the examination according to EC law required by the second step. WTO Members have no obligation to implement a system of protection for geographical indications comparable to that of the European Communities and there is no reason to believe that they would nevertheless have the capacity to carry out examinations of technical issues that involve interpretations of EC law. In this regard, we note that one third party in this Panel proceeding indicates that its authorities would be devoid of legal competence to perform this analysis.<sup>276</sup> Whilst a WTO Member that provided equivalent protection under its domestic law might presumably have the technical capacity, if not the legal competence, to perform this analysis, the provision of such equivalent protection forms part of the conditions under Article 12(1) of the Regulation. We have found that requirement, as a precondition to the availability of GI protection, to be inconsistent with the national treatment obligations in the TRIPS Agreement and GATT 1994.

7.274 In any event, even if any normally functioning government could perform these three steps, that would not alter the Panel's conclusion. The obligation to accord national treatment with respect to a measure of the European Communities is the obligation of the European Communities. This is highlighted in the text of Article 3.1 of the TRIPS Agreement under which "[e]ach Member" shall accord to the nationals of other Members no less favourable treatment.

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<sup>275</sup> European Communities' rebuttal submission, para. 141; second oral statement, para. 142.

<sup>276</sup> See comments by Brazil in Annex C, para. 32.

7.275 In accordance with its domestic law, the European Communities is entitled to delegate certain functions under its measure to the authorities of EC member States. However, under the Regulation, the European Communities has purported to delegate part of this obligation to other WTO Members, who must carry out these three steps in the application procedures in order to ensure that no less favourable treatment is accorded to their respective nationals. To that extent, the European Communities fails to accord no less favourable treatment *itself* to the nationals of other Members.<sup>277</sup>

7.276 The Panel notes that the European Commission does not have the discretion to ensure that applications for GIs that refer to geographical areas located in third countries receive no less favourable treatment than those located in the European Communities because it has structured the Regulation in such a way that certain functions are completely outside its control.

7.277 The European Communities drew the Panel's attention to many examples of international cooperation in the protection of private rights, including in the field of intellectual property protection.<sup>278</sup> The Panel notes that under two of them, the Patent Cooperation Treaty and the Madrid Protocol, the possibility of filing an application with an office in the applicant's own country does not prevent the applicant filing an application directly in the another country. The Panel certainly does not intend to discourage international cooperation. However, in each of these examples, cooperation is provided in the framework of treaties in which contracting parties have voluntarily agreed to participate. In contrast, the Regulation is a domestic law adopted by one Member.

7.278 The Panel also confirms that nothing in these findings purports to diminish the rights of Members under Article 24.9 of the TRIPS Agreement, which provides, in essence, that there is no obligation under this Agreement to protect geographical indications which are not protected in their country of origin<sup>279</sup>.

7.279 The Panel further confirms that the European Communities is entitled, under Article 62.1 of the TRIPS Agreement, to require that applicants comply with reasonable procedures and formalities that are consistent with the Agreement in order to prove that they meet the conditions of protection. However, Article 62 is outside the Panel's terms of reference.

7.280 The Panel recalls its finding at paragraph 7.212 that the fact that a general exceptions provision analogous to Article XX of GATT 1994 was not included in the TRIPS Agreement has no impact on its analysis of Article 3.1.

7.281 For the above reasons, the Panel concludes that, with respect to the application procedures, insofar as they require examination and transmission of applications by governments, the Regulation accords other WTO Member nationals less favourable treatment than it accords the European Communities' own nationals, inconsistently with Article 3.1 of the TRIPS Agreement.

7.282 In view of that conclusion, it is unnecessary to consider the consistency of the Regulation, with respect to the application procedures, with Article 2(1) of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement.

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<sup>277</sup> See further paras. 7.741 to 7.743 below.

<sup>278</sup> See European Communities' response to Panel question No. 37, and Exhibits EC-20 through EC-27.

<sup>279</sup> Nothing in these findings purports to diminish the rights of Members under Article 5 of the TRIPS Agreement either.

(c) National treatment under GATT 1994

(i) *Main arguments of the parties*

7.283 The **United States** claims that the Regulation is inconsistent with Article III:4 of GATT 1994 because an application for registration must be submitted by a WTO Member on behalf of its national. It reiterates its arguments in relation to the conditions of equivalence and reciprocity and Article III:4 of GATT 1994, it reiterates its arguments in relation to the application procedures and Article 3.1 of the TRIPS Agreement, and it adds that the application procedures deny the benefits of registration which accords less favourable treatment to imported products.<sup>280</sup> Products imported from Members, like the United States, which lack a mechanism to assess compliance under the Regulation, will be denied these benefits for reasons unrelated to the characteristics of the product itself, but for reasons related to the products' origin.<sup>281</sup>

7.284 The United States argues that the relevant aspects of the application procedures are not justified under Article XX(d) of GATT 1994. They do not satisfy paragraph (d) because they do not "secure compliance". At best, they solicit other Members' views but the decision on registration is made by the European Communities. Whether a product satisfies the Regulation's requirements is a legal judgement and has nothing to do with compliance with the Regulation. These aspects shift the burden for assessing compliance from the European Communities onto other Members. The Regulation itself is not a law consistent with GATT 1994, which is the fundamental issue in this dispute. These aspects are not "necessary" to secure compliance because another Member's views or on-site checks will not always be required, by the EC's own admission. There is no reason why alternative measures are not reasonably available, such as allowing nationals to file applications directly with the European Communities, or establish by other means that a GI is protected in its country of origin.<sup>282</sup> These aspects do not satisfy the chapeau of Article XX because the European Communities favours countries that protect GIs the way it does, which arbitrarily and unjustifiably discriminates between countries where the same conditions apply.<sup>283</sup>

7.285 The **European Communities** responds that this claim must fail. It reiterates its arguments that the application procedures provide equal treatment, not less favourable treatment.<sup>284</sup>

7.286 The European Communities asserts that verification and transmission of applications by the government of the home country of the GI is justified by Article XX(d) of GATT 1994.<sup>285</sup> It argues that this is necessary to secure compliance with the Regulation itself, in particular, the definition of a GI, the product specifications, protection in the country of origin, establishment of the inspection structures and the requirement that only products that comply with a specification bear the PDO and PGI indications. It argues that the cooperation of the home government is indispensable for the implementation of the Regulation which, in particular, requires the evaluation of factual and legal questions which only the home country of the GI is in a position to carry out. These requirements for cooperation do not go beyond what is necessary for the implementation of the Regulation. The requirement of transmission follows naturally from the required intergovernmental cooperation and is not particularly burdensome for WTO Members. Article XX(d) does not exclude that the measures and the laws and regulations with which they secure compliance may be part of the same legal act. In addition, there is nothing which limits measures which secure compliance to *ex post* enforcement and

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<sup>280</sup> United States' first written submission, paras. 104(d) and 105; rebuttal submission, para. 95.

<sup>281</sup> United States' second oral statement, para. 45.

<sup>282</sup> United States' second oral statement, para. 55.

<sup>283</sup> United States' second oral statement, para. 57 and comments on EC responses to Panel question

Nos. 135 and 136.

<sup>284</sup> European Communities' first written submission, para. 207; rebuttal submission, para. 218.

<sup>285</sup> European Communities' rebuttal submission, paras. 237-239.

excludes safeguards in the registration process. The Regulation is not inconsistent with GATT 1994 because it implements an obligation under Article 22 of the TRIPS Agreement and a higher level of protection permitted by Article 1.1. It is applied in a manner consistent with the chapeau of Article XX.<sup>286</sup>

7.287 The European Communities argues that, with respect to verification that the GI is protected in its country of origin, verification requires knowledge of local factors that typically only the country of origin will have and which may also require on-site checks. Submission of a registration certificate authenticated by the country of origin would normally provide sufficient evidence that the indication is protected in the country of origin. However, it is not an option for those Members which do not have a specific register, such as the United States. Verification by third country governments is particularly necessary where they do not have a specific register as evaluation of protection in the country of origin may be more difficult. It is not credible that the United States government would not be better qualified than the right holder or the European Communities. Transmission of applications by third country governments is an integral part of the application procedure and should not be viewed in isolation. It has no significant impact on trade in goods. It makes no difference whether the European Communities asks for cooperation from a third country government before or after an application is filed.<sup>287</sup>

(ii) *Main arguments by third parties*

7.288 **Argentina, Brazil, India, Mexico and Chinese Taipei** inform the Panel that direct applications to register GIs located in third countries are possible under their respective national legislation.<sup>288</sup>

7.289 **Brazil** argues that the application procedures require WTO Members to "pre-approve" applications before they forward them to the European Commission, which is a striking violation of the national treatment obligation in Article 3.1 of the TRIPS Agreement.<sup>289</sup>

7.290 **New Zealand** considers that, as the same phrase "less favourable treatment" is used in Article III:4 as in Article 3.1 of the TRIPS Agreement, all arguments raised under that claim apply equally here. New Zealand does not consider that the measure can be justified as "necessary" within the meaning of Article XX(d) of GATT 1994. The Commission conducts its own six-month investigation of an application so that it is not necessary for applications to be passed through a third country government filter.<sup>290</sup>

(iii) *Consideration by the Panel*

7.291 This claim concerns procedures for applications for registration under the Regulation. The Panel recalls its findings:

- (a) at paragraph 7.227, that the Regulation is a law or regulation affecting the internal sale and offering for sale of products within the meaning of Article III:4 of GATT 1994;
- (b) at paragraph 7.228 that the Regulation links the protection of the name of a product to the territory of a particular country and formally discriminates between imported

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<sup>286</sup> European Communities' rebuttal submission, paras. 237-239; responses to Panel question No. 135(a), (b) and (c) and 136(a).

<sup>287</sup> European Communities' response to Panel question No. 136(b), (c) and (d).

<sup>288</sup> See their respective comments in Annex C at paras. 18, 27, 103, 118 and 180.

<sup>289</sup> Annex C, para. 27.

<sup>290</sup> Annex C, paras. 141-143.

products and products of European Communities origin within the meaning of Article III:4 of GATT 1994;

- (c) at paragraph 7.229 that the European Communities does not contest that there are, among the group of products covered by the Regulation, "like products" among the imported products and products of European Communities origin;
- (d) at paragraph 7.230, that under Article III:4 of GATT 1994 we must examine whether the measure modifies the conditions of competition between domestic and imported products and that in this examination we will focus on the "fundamental thrust and effect of the measure itself";
- (e) at paragraph 7.231 to 7.235 on the substantive advantage provided under Article 13 of the Regulation that affects the conditions of competition of the relevant products;
- (f) at paragraphs 7.268 to 7.272 concerning the differences between the application procedures for GIs that refer to geographical areas located in EC member States and those located in third countries. These differences can result in some applications from third countries, including WTO Members, not being examined and transmitted to the Commission; and
- (g) at paragraph 7.276 that the European Communities has no discretion in the implementation of the Regulation to ensure that all applications from third countries are transmitted to the Commission.

7.292 A failure to transmit an application would entail non-registration of GIs, which would lead to failure of the products from those third countries to obtain the benefits of registration set out in Article 13 of the Regulation. Therefore, the Panel concludes that, with respect to the application procedures, insofar as they require examination and transmission of applications by governments, the Regulation accords less favourable treatment to imported products than domestic products, inconsistently with Article III:4 of GATT 1994.

7.293 The European Communities asserts that these procedures are justified by Article XX(d) of GATT 1994. As the party invoking this affirmative defence, the European Communities bears the burden of proof that the conditions of the defence are met.

7.294 Article XX provides exceptions for certain measures. The "measures" which the European Communities needs to justify at this point are the requirements of examination and transmission of applications for registration by governments under the Regulation. These apply to applications from both EC member States and third countries. However, it does not need to justify the less favourable treatment which denies applicants for GIs located in third countries the opportunity to file direct applications.<sup>291</sup>

7.295 Paragraph (d) of Article XX refers to "measures" falling within the following description:

- "(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

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<sup>291</sup> This is consistent with the approach of the Appellate Body in *US – Gasoline*, according to which one must examine whether the relevant "measure", rather than the legal finding of less favourable treatment, falls within a paragraph of Article XX: see DSR 1996:I, 3, at 15.

paragraph 4 of Article II and Article XVII, the protection of patents, trade marks and copyrights, and the prevention of deceptive practices;"

7.296 The Panel takes note that paragraph (d) refers to laws or regulations, including those relating to "the protection of patents, trade marks and copyrights, and the prevention of deceptive practices". The Regulation provides for the protection of GIs and is an analogous law or regulation, as the European Communities points out.<sup>292</sup> However, the term "laws or regulations" is qualified by the phrase "not inconsistent with the provisions of this Agreement".

7.297 The European Communities argues that the requirements of examination and transmission of applications by governments secure compliance with the Regulation.<sup>293</sup> The Panel has found that the Regulation is inconsistent with the provisions of GATT 1994 for the reasons set out in this report. Therefore, the Regulation is not a law or regulation within the meaning of paragraph (d). In response to questions, the European Communities argued that these requirements secure compliance with a provision within the Regulation. However, if that provision could itself be a law or regulation within the meaning of paragraph (d), the European Communities did not demonstrate that it was "not inconsistent" with GATT 1994.<sup>294</sup>

7.298 The Panel also notes the use of the term "necessary" in paragraph (d). We recall the clarification of that term provided by the Appellate Body in *Korea – Various Measures on Beef*, as follows:

"We believe that, as used in the context of Article XX(d), the reach of the word 'necessary' is not limited to that which is 'indispensable' or 'of absolute necessity' or 'inevitable'. Measures which are indispensable or of absolute necessity or inevitable to secure compliance certainly fulfil the requirements of Article XX(d). But other measures, too, may fall within the ambit of this exception. As used in Article XX(d), the term 'necessary' refers, in our view, to a range of degrees of necessity. At one end of this continuum lies 'necessary' understood as 'indispensable'; at the other end, is 'necessary' taken to mean as 'making a contribution to'. We consider that a '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'." [footnote omitted]<sup>295</sup>

7.299 The Appellate Body summed up its approach to the determination of whether a measure which is not "indispensable" may nevertheless be "necessary" within the meaning of Article XX(d) as a process of weighing and balancing a series of factors. It approved the approach of the GATT Panel in *US – Section 337* as a way in which to apply this process as follows:

"In our view, the weighing and balancing process we have outlined is comprehended in the determination of whether a WTO-consistent alternative measure which the

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<sup>292</sup> European Communities' rebuttal submission, para. 234.

<sup>293</sup> European Communities' first written submission, para. 226; rebuttal submission, para. 238.

<sup>294</sup> The European Communities argued that verification (and incidentally also the transmission) of applications by the government of the country of origin served the purpose of establishing whether the requirements of the Regulation for registration of GIs are satisfied and, accordingly, secured compliance with the requirement in Article 8 that the PDO, PGI and equivalent indications may appear only on products that comply with the Regulation. However, it only explained how the Regulation itself was, in its view, not inconsistent with GATT 1994: see its responses to Panel questions No. 135(a), (c) and (d).

<sup>295</sup> Appellate Body report on *Korea – Various Measures on Beef*, para. 161.

Member concerned could 'reasonably be expected to employ' is available, or whether a less WTO-inconsistent measure is 'reasonably available'."<sup>296</sup>

7.300 The Panel will follow this approach.

7.301 The United States argues that the European Communities could reasonably be expected to allow applicants to file applications directly with its authorities without prior examination by third country governments, and that this is WTO-consistent. Many other WTO Members employ such a procedure.<sup>297</sup> It is not disputed that such a procedure would be WTO-consistent.

7.302 The European Communities submits that the cooperation of the government of the country where the GI is located is indispensable because the registration of GIs requires the evaluation of factual and legal questions which "only the home country of the GI is in a position to carry out".<sup>298</sup>

7.303 The Panel observes that Articles 6(2) and 12b(1) of the Regulation provide that the Commission makes the decision on whether the conditions are satisfied so as to warrant publication. It is not clear why an additional examination of the conditions by other governments is also required. Nor is it clear that a third country government is even able to conduct an examination according to the requirements, not of its own law, but of an EC Regulation. The European Communities has not explained why physical proximity or potential knowledge of certain questions in the country of origin implies a capacity to assess matters of EC law. Therefore, it is not clear to what extent examination by governments, including third country governments, contributes to securing compliance with the conditions for registration.

7.304 With respect to factual and legal questions that can, as part of the examination, be verified in the country of origin, the European Communities does not explain why the Regulation does not permit applicants to provide objective and impartial evidence that may verify their applications nor does it explain why the Commission cannot seek consent to carry out its own verifications. In its responses to the Panel's questions, the European Communities indicates that "typically" only the country of origin has the required knowledge of local factors and that verification "may" require on-site checks which the Commission cannot carry out in third countries without express consent.<sup>299</sup> The Panel considers that these responses constitute an admission that, in some cases, verification by third country governments is not necessary and that, if it sought and obtained consent, the Commission could conduct verifications itself. The European Communities has not demonstrated the factual premise of its defence that only the government of the country of origin is in a position to carry out the evaluation of these factual and legal questions. Therefore, the Panel does not need to consider further the requirement of examination by governments.

7.305 With respect to the transmission of applications, the European Communities is unable to explain why a procedure permitting applicants to file applications directly with its competent authorities would not permit an examination of whether an application for a GI in another WTO Member complies with the conditions in the Regulation. It submitted that transmission of applications by governments should not be viewed in isolation. Given that it has not established that examination by governments, including third country governments, is necessary, it has not established that transmission by them is necessary either.

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<sup>296</sup> *Ibid.* para. 166. The Appellate Body also followed this approach to the word "necessary" as used in paragraph (b) of Article XX in *EC – Asbestos*, para. 172.

<sup>297</sup> See comments of Argentina, Brazil, India, Mexico, New Zealand and Chinese Taipei as third parties in Annex C, paras. 18, 28, 103, 118, 161 and 180.

<sup>298</sup> European Communities' rebuttal submission, para. 237.

<sup>299</sup> European Communities' response to Panel question No. 136(a).

7.306 Therefore, the Panel considers that the European Communities has not discharged its burden of proving that the requirements of examination and transmission of applications by governments is covered by paragraph (d) of Article XX. It is therefore unnecessary to consider the chapeau of Article XX.

7.307 For these reasons, the Panel concludes that, with respect to the application procedures, insofar as they require examination and transmission of applications by governments, the Regulation accords less favourable treatment to imported products inconsistently with Article III:4 of GATT 1994, and these requirements are not justified by Article XX(d).

### 3. Objection procedures

#### (a) Description of objection procedures under Articles 7, 12b and 12d of the Regulation

7.308 The parties agree on most features of the objection procedures under the Regulation. There are separate provisions setting out the procedures for objections to applications for registration of GIs which apply according to the location of the geographical area and the location of the person who wishes to file an objection. Article 7 applies where the geographical area and the person who wishes to file an objection are both located in EC member States. Article 12b applies where the geographical area is located in a third country. Article 12d applies where the geographical area is located in an EC member State and the person who wishes to file an objection is located in a third country.

7.309 Article 7(1) and 7(3) provide as follows:

"1. Within six months of the date of publication in the *Official Journal of the European Communities* referred to in Article 6(2), any Member State may object to the registration.

3. Any legitimately concerned natural or legal person may object to the proposed registration by sending a duly substantiated statement to the competent authority of the Member State in which he resides or is established. The competent authority shall take the necessary measures to consider these comments or objection within the deadline laid down."

7.310 Article 12b(2) provides, relevantly, as follows:

"2. Within six months of the date of publication as provided for in paragraph 1(a), any natural or legal person with a legitimate interest may object to the application published in accordance with paragraph 1(a) on the following terms:

(a) where the objection comes from a Member State of the European Union or a WTO Member, Article 7(1), (2) and (3) or Article 12d respectively shall apply;

(b) where the objection comes from a third country meeting the equivalence conditions of Article 12(3), a duly substantiated statement of objection shall be addressed to the country in which the abovementioned natural or legal person resides or is established, which shall forward it to the Commission."

7.311 Article 12d(1) provides, relevantly, as follows:

"1. Within six months of the date of the notice in the *Official Journal of the European Union* specified in Article 6(2) relating to a registration application submitted by a Member State, any natural or legal person that has a legitimate interest



and is from a WTO member country or a third country recognised under the procedure provided for in Article 12(3) may object to the proposed registration by sending a duly substantiated statement to the country in which it resides or is established, which shall transmit it, made out or translated into a Community language, to the Commission."

7.312 Article 7(4) sets out the grounds for admission of objections. Articles 12b(3) and 12d(2) provide that the Commission shall examine the admissibility of objections in accordance with the criteria laid down in Article 7(4).

(b) National treatment under the TRIPS Agreement

(i) *Main arguments of the parties*

7.313 The **United States** claims that the Regulation is inconsistent with Article 3.1 of the TRIPS Agreement and Article 2 of the Paris Convention (1967), as incorporated in Article 2.1 of the TRIPS Agreement, because the objection procedures accord less favourable treatment to non-EC nationals. It argues that the right of to object to registration of a GI is part of the protection of industrial property and of intellectual property because it is part of the ability to prevent others from using indications in a way that is misleading as to source.<sup>300</sup>

7.314 The United States argues that EC nationals have a *direct means to object* to registrations but non-EC nationals do not. Objections must be filed with the authorities of the third country or EC member State in which the objector resides or is established. The competent authority of an EC member State has an obligation under Article 7(3) of the Regulation to take the necessary measures. The authorities in the third country do not. They are responsible for *verification and transmission* of the objection. This represents an extra hurdle for non-EC nationals and less favourable treatment. It also constitutes a requirement of domicile or establishment inconsistent with Article 2(2) of the Paris Convention (1967).<sup>301</sup>

7.315 The United States argues that Article 12d of the Regulation limits the persons who may file objections to those resident or established in a country that satisfies the conditions of *equivalence* and *reciprocity*.<sup>302</sup>

7.316 The United States argues that Article 12d of the Regulation provides *standing to object* to non-EC nationals who have a "legitimate interest". Non-EC nationals are at a disadvantage because they are less likely to have a product on the EC market with a competing name due to the discrimination in availability of protection. Article 7(3) provides standing to object to EC nationals who are "legitimately concerned" which is a lower standard that makes it easier to object.<sup>303</sup> It cites dictionary definitions which show that "concern" is broader than "interest". Article 12d was inserted by the April 2003 amending Regulation – if the standard were the same it would have been logical to use the same word.<sup>304</sup>

7.317 The **European Communities** responds that these claims must fail. The *verification and transmission* of an objection by a third country should not be particularly burdensome and does not amount to an "extra hurdle" for third country residents. A third country is not required to conduct a substantive verification under Article 7(4) the Regulation – which is clear from the wording of

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<sup>300</sup> United States' first written submission, para. 87.

<sup>301</sup> United States' first written submission, paras. 89-91; second oral statement, paras. 40 and 43.

<sup>302</sup> United States' first written submission, para. 92; second oral statement, para. 39.

<sup>303</sup> United States' first written submission, paras. 93-94; first oral statement, para. 34.

<sup>304</sup> United States' rebuttal submission, paras. 87-88; second oral statement, para. 42.

Article 12d(2) that indicates that the criteria must be assessed in relation to the territory of the Community. Rather, the third country verifies whether the person objecting is indeed resident or established there. It could also be useful to have an official contact point if questions arise concerning the territory of the third country, it should be beneficial to the person objecting to deal directly with an authority in the third country and, if the objection is admissible, the third country is to be consulted before the Commission takes its decision on registration.<sup>305</sup>

7.318 The European Communities argues that Article 12d grants a right of objection to persons from WTO Members because the phrase "recognised under the procedure provided for in Article 12(3)" only applies to other third countries. The conditions of *equivalence* and *reciprocity* do not apply to WTO Members' right to object. Otherwise, the specific reference to "WTO Members" would be meaningless. This is also clear in Article 12b(2).<sup>306</sup> It also argues that Article 12d does not discriminate according to nationality but according to residence or establishment. It cannot simply be assumed that the reference to "nationals" in Article 3.1 of the TRIPS Agreement and Article 2 of the Paris Convention (1967) also applies to persons who are domiciled or established abroad, regardless of their nationality.<sup>307</sup>

7.319 The European Communities argues that the requirements for *standing to object* by persons from within the European Communities do not differ from those for persons from outside the European Communities. There is no substantive difference between the two expressions "legitimately concerned" and "legitimately interested". It cites a dictionary definition of "concerned" which includes "interested".<sup>308</sup>

(ii) *Main arguments of third parties*

7.320 **Argentina, India, Mexico, New Zealand and Chinese Taipei** all inform the Panel that they are not aware of any person ever having attempted to file with their respective authorities an objection to registration under the Regulation.<sup>309</sup>

7.321 **Brazil** considers that the requirement to file objections with the country in which the objector resides or is established is an "unnecessarily complicated or costly" procedure in breach of Article 41.2 of the TRIPS Agreement. Brazil sees no necessity that would justify preventing private parties forwarding objections directly to the European Commission as many countries, including Brazil, allow for direct access for foreigners to object.<sup>310</sup>

7.322 **Mexico** argues that the Regulation is inconsistent with national treatment because it imposes conditions of reciprocity and prevents third country nationals filing objections directly with European authorities. Non-EC WTO Member nationals have an additional burden to involve their national authorities and delegate to them the objection process. Mexico refers to cochineal as a practical example of the way in which Mexican producers would be required to go through specific procedures which EC nationals are not.<sup>311</sup>

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<sup>305</sup> European Communities' response to Panel question No. 34; rebuttal submission, paras. 155-159; second oral statement, paras. 89-94.

<sup>306</sup> European Communities' first written submission, paras. 73-75; first oral statement, para. 50; second oral statement, paras. 86-88.

<sup>307</sup> European Communities' first written submission, para. 142; first oral statement, para. 51.

<sup>308</sup> European Communities' first written submission, paras. 76-78 and 151; rebuttal submission, paras. 160-163.

<sup>309</sup> See their respective comments in Annex C at paras. 18, 103, 118, 160 and 179.

<sup>310</sup> Annex C, para. 28.

<sup>311</sup> Annex C, para. 110.

7.323 **New Zealand** argues that the objection procedure can potentially result in an application for registration not proceeding. Not having the right to object is a loss of a valuable right of a producer to protect its intellectual property rights. Objections under the Regulation are subject to equivalence and reciprocity requirements: the distinction between WTO Members and other third countries in Article 12d(1) could have been made clear by inserting a comma or other words. Objections must also be submitted through governments. At worst, the benefits of the right to object are entirely unavailable to third country producers. As a result, the system virtually guarantees that no objections will be received from WTO Member nationals to applications for registration of GIs.<sup>312</sup>

(iii) *Consideration by the Panel*

7.324 These claims concern procedures for filing and examination of objections to applications for registration of "designations of origin and "geographical indications", as defined in the Regulation. They are referred to in this report, for the sake of brevity, as "objection procedures".

7.325 The claims relate to three separate issues: (1) regarding verification and transmission; (2) regarding equivalence and reciprocity conditions; and (3) regarding standing requirements to raise an objection. The Panel will address these issues in turn.

7.326 These claims are made under Article 3.1 of the TRIPS Agreement and Article 2 of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement. The Panel will first consider the claims under Article 3.1 of the TRIPS Agreement.

7.327 The Panel recalls that two elements must be satisfied to establish an inconsistency with this obligation: (1) the measure at issue must apply with regard to the protection of intellectual property; and (2) the nationals of other Members must be accorded "less favourable" treatment than the Member's own nationals. The Panel will address each of these elements in turn.

Verification and transmission

Protection of intellectual property

7.328 The Panel recalls that the national treatment obligation in Article 3 of the TRIPS Agreement applies to the treatment accorded by a Member "with regard to the protection of intellectual property". Footnote 3 provides an inclusive definition of the term "protection" as used in Articles 3 and 4:

"For the purposes of Articles 3 and 4, 'protection' shall include matters affecting the availability, acquisition, scope, maintenance and enforcement of intellectual property rights as well as those matters affecting the use of intellectual property rights specifically addressed in this Agreement."

7.329 The Panel recalls its finding at paragraph 7.262 that procedures for the filing and examination of *applications* for registration are matters affecting the acquisition of intellectual property rights, within the scope of "protection" of intellectual property as clarified in footnote 3 of the TRIPS Agreement. Procedures for *objections* to such applications are related to the procedures for acquisition, as recognized in the fourth paragraph of Article 62 (which uses the word "opposition") and the title of that article. Hence, opposition procedures are also matters "affecting" the acquisition of intellectual property rights which concern the "protection" of intellectual property, as clarified in footnote 3 to the TRIPS Agreement.

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<sup>312</sup> Annex C, paras. 139-140.

7.330 It is not disputed that "designations of origin" and "geographical indications", as defined in the Regulation, are a subset of geographical indications, the subject of Section 3 of Part II, and therefore part of a category of intellectual property within the meaning of Article 1.2 of the TRIPS Agreement.

7.331 Therefore, this claim concerns the "protection" of intellectual property, as clarified in footnote 3 to the TRIPS Agreement, within the scope of the national treatment obligation in Article 3.1 of that Agreement.

Less favourable treatment accorded to the nationals of other Members

7.332 The United States claims that the procedures relating to verification and transmission of objections are inconsistent with the national treatment obligations under the TRIPS Agreement.

7.333 The Panel notes that, unlike the application procedures, the objection procedures do *not* concern the location of the geographical area to which the GI refers. Rather, they refer to the place where the objector resides or is established. The Panel recalls its findings at paragraphs 7.185 to 7.203 and considers, for the same reasons *a fortiori*, that the treatment accorded by the Regulation to persons resident or established in certain countries will, objectively, translate into treatment of persons with the nationality of those countries.

7.334 The Panel notes once again that the close link between nationality, on the one hand, and residence and establishment, on the other, appears to be recognized in the Regulation itself. Articles 12b(2)(a) and 12d(1) of the Regulation accord a right of objection to persons, which the European Communities confirms refers to persons resident or established outside the European Communities regardless of their nationality.<sup>313</sup> Yet the April 2003 amending Regulation, which inserted these provisions, explained that Article 12d granted the right of objection to the *nationals* of other WTO Members.<sup>314</sup>

7.335 The Panel recalls its finding at paragraph 7.134 that under Article 3.1 of the TRIPS Agreement we must examine the "effective equality of opportunities" with regard to the protection of intellectual property rights and at paragraph 7.137 that in this examination we will focus on the "fundamental thrust and effect" of the Regulation.

7.336 The parties and third parties who responded to the Panel's question on this point all reported that they were not aware of any objections to registration of GIs under the Regulation ever having been filed with the authorities of a third country.<sup>315</sup> However, the United States challenges the Regulation, in this respect, "as such".

7.337 The United States claims that the treatment accorded under the objection procedures in Articles 12b(2) and 12d(1) is less favourable than that accorded under the objection procedure in Article 7(3). There is an apparent equivalence in the drafting of these provisions but the question is whether this would imply a modification of the effective equality of opportunities with regard to the protection of intellectual property.

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<sup>313</sup> European Communities' first written submission, para. 142.

<sup>314</sup> See paragraph 10 of the recitals to the April 2003 amending Regulation, set out in para. 7.70 above.

<sup>315</sup> However, the United States provided evidence from the U.S. Dairy Export Council and the National Milk Producers Federation that U.S. dairy producers and processors had been unable to prevent the registration as protected GIs in the European Union of a number of cheese types that they considered generic prior to registration: see letter dated 26 March 2004 to the Office of the United States Trade Representative, in response to Panel question No. 36, reproduced in Exhibit US-39. The European Communities responds that this is based on a misperception of the content of the Regulation: see its rebuttal submission, para. 85.

7.338 The Panel notes that the initial steps in the procedures for objections by private persons can be broken down as follows:

- (a) as a first step, all objectors are required to submit their objection to the authorities in the country in which they reside or are established. These will be authorities of an EC member State or a third country, depending on the case; and
- (b) as a second step, the authorities who receive an objection verify certain formal matters<sup>316</sup> and forward or transmit it to the Commission.

7.339 We recall the European Communities' explanation of what amounts to its domestic constitutional arrangements, set out at paragraph 7.98, that Community laws are generally not executed through authorities at Community level but rather through recourse to the authorities of its member States which, in such a situation, "act *de facto* as organs of the Community, for which the Community would be responsible under WTO law and international law in general".<sup>317</sup> It follows that any objection from a person in an EC member State is filed directly with a "*de facto* organ of the Community". An objection from a person in a third country cannot be filed directly, but must be filed with a foreign government. This is a formal difference in treatment.

7.340 An EC member State has an obligation under Community law to verify an objection and forward it to the Commission. A group or person who submits an objection in an EC member State may enforce these obligations through recourse to judicial procedures based on the Regulation. In contrast, a third country government has no obligation under Community law or any other law to receive an objection or to transmit it to the Commission. A group or person who submits an objection in a third country has no right to such treatment.

7.341 Therefore, persons resident or established in third countries, including other WTO Members, who wish to object to applications for registration under the Regulation do not have a right in the objection procedures that is provided to persons in the European Communities. Objectors in third countries face an "extra hurdle" in ensuring that the authorities in those countries carry out the functions reserved to them under the Regulation, which objectors in EC member States do not face. Consequently, certain objections may not be verified or transmitted. Each of these considerations significantly reduces the opportunities available to other WTO Member nationals in matters affecting the acquisition of rights under the Regulation compared with those available to EC nationals. For this reason, the Regulation accords nationals of other WTO Members "less favourable treatment" within the meaning of Article 3.1 of the TRIPS Agreement.

7.342 The European Communities submits that the requirement that statements of objection be transmitted by the country where the person is resident or established is not an unreasonable condition and that, if there is no objective reason for the third country government to refuse to cooperate, it is not the European Communities' rules which create an extra hurdle for third country residents.<sup>318</sup> The Panel recalls its finding at paragraph 7.274 that the obligation to accord national treatment with respect to a measure of the European Communities is the obligation of the European Communities. For the reason set out in paragraph 7.275 in relation to application procedures, the Panel considers

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<sup>316</sup> The Panel takes note of the European Communities' position that it does not require third country governments to verify whether the objections are admissible, but it agrees that it does require them to verify certain formal matters: see European Communities' rebuttal submission, paras. 155-156.

<sup>317</sup> European Communities' second oral statement, para. 148.

<sup>318</sup> European Communities' rebuttal submission, para. 157.

that the European Communities has failed to accord no less favourable treatment *itself* to the nationals of other Members.<sup>319</sup>

7.343 The Panel confirms that the European Communities is entitled, under Article 62.4 of the TRIPS Agreement, to provide for procedures for objections that comply with the general principles in paragraphs 2 and 3 of Article 41. However, Article 62 is outside the Panel's terms of reference.

7.344 The Panel recalls its finding at paragraph 7.212 that the fact that a general exceptions provision analogous to Article XX of GATT 1994 was not included in the TRIPS Agreement has no impact on its analysis of Article 3.1.

7.345 Therefore, the Panel concludes that, with respect to the objection procedures, insofar as they require the verification and transmission of objections by governments, the Regulation accords less favourable treatment to the nationals of other Members, inconsistently with Article 3.1 of the TRIPS Agreement.

#### Article 2 of the Paris Convention (1967)

7.346 In view of the conclusion at paragraph 7.345 with respect to the objection procedures, insofar as they require the verification and transmission of objections by governments, it is unnecessary to consider their consistency with Article 2(1) of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement.

7.347 The Panel recalls its finding at paragraph 7.217 and, for the same reasons, concludes that, with respect to the opposition procedures, the Regulation does not impose a requirement of domicile or establishment inconsistently with Article 2(2) of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement.

#### Equivalence and reciprocity conditions

7.348 The United States claims that the right to file an objection under Article 12d(1) of the Regulation is limited to countries that satisfy the equivalence and reciprocity conditions in Article 12(1), based on a reading of the phrase "a WTO member country or a third country recognised under the procedure provided for in Article 12(3)" as if it read "a WTO member country recognised under the procedure provided for in Article 12(3) or a third country recognised under the procedure provided for in Article 12(3)". It is necessary for the Panel to make an objective assessment of the meaning of that phrase in this provision, although solely for the purpose of determining the European Communities' compliance with its WTO obligations.<sup>320</sup>

7.349 The Panel observes that this claim is based entirely on the absence of a comma. A reading of the text of Article 12d(1), set out in full at paragraph 7.311, shows that if there were a comma after the words "a WTO member country", it would be clear that it was separate from the following words "or a third country recognised under the procedure provided for in Article 12(3)". However, in the Panel's view, even without a comma, it is unlikely that the phrase "recognised under the procedure provided for in Article 12(3)" refers to both a "WTO member country" and a "third country" in this context. If that were the correct reading, then there would be no need to specify a "WTO member country" separately because, outside the European Communities, a "WTO member country" is necessarily a third country. There would be no need to refer specifically to a "WTO member country" if it was not distinguished in some way from any other third country. The difference must be that a third country is only included if it is recognized under the procedure provided for in Article 12(3) so that,

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<sup>319</sup> See further paras. 7.741 to 7.743 below.

<sup>320</sup> In this regard, the Panel recalls its comments at para. 7.55 above.

consequently, this phrase would not apply to a "WTO member country". Indeed, the fact that there is no need for a WTO Member to obtain recognition under Article 12(3) for its residents to object seems to be precisely the reason that it is included. Therefore, the Panel's interpretation of Article 12d of the Regulation is that it does not apply conditions of equivalence and reciprocity to the right of objection for nationals of other WTO Members.

7.350 This is consistent with the fact that Article 12b(2), in which the format is clearer, creates a right of objection for WTO Member and other third country nationals but clearly indicates that recognition under the procedure in Article 12(3) does not apply to WTO Members in this respect. Further confirmation is provided by the recitals to the April 2003 amending Regulation. Those recitals explained the justification for the insertion of the right of objection in Articles 12b and 12d in terms of WTO Members, but limited the explanation of the equivalence and reciprocity conditions to the issue of protection provided by registration to foreign names.<sup>321</sup>

7.351 The European Communities confirms that the Panel's interpretation of this aspect of the Regulation is correct and submits undisputed evidence that since the entry into force of Article 12d(1), the publications of all applications for registration of a geographical indication specifically refer to the possibility for residents from WTO countries to object to the application.<sup>322</sup>

7.352 Therefore, based on this interpretation of Article 12d(1) of the Regulation, the Panel concludes that, with respect to the equivalence and reciprocity conditions, as allegedly applicable to objections, the United States has not made a prima facie case in support of its claims under Article 3.1 of the TRIPS Agreement or Article 2(1) of the Paris Convention (1967) as incorporated by Article 2.1 of the TRIPS Agreement.

#### Standing requirements

7.353 The United States also claims that there is a difference in the requirements for standing to object under the Regulation, based on the difference between the words:

- (a) "[a]ny legitimately concerned natural or legal person may object" in Article 7(3);
- (b) "any natural or legal person with a legitimate interest may object" in Article 12b(2); and
- (c) "any natural or legal person that has a legitimate interest ... may object", in Article 12d(1).

7.354 The requirement in Article 7(3) of the Regulation applies to persons who wish to file objections who reside or are established in the European Communities, whilst the requirements in Articles 12b(2) and 12d(1) apply to persons who wish to file objections who reside or are established in other WTO Members and third countries.

7.355 The United States' claims are based on the premise that a "legitimate interest" is a higher standard than "legitimately concerned".

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<sup>321</sup> Paragraphs 9 and 10 of the recitals to Council Regulation (EC) No. 692/2003 set out in Exhibit COMP-1h.

<sup>322</sup> European Communities' rebuttal submission, para. 152, attaching as an example the publication of the application to register "Lardo di Colonnata" dated 5 June 2003, set out in Exhibit EC-56.

7.356 The Panel notes that the Regulation, on its face, uses two different words in the standing requirements applicable to persons resident and established within or outside the European Communities. The word "interest" can be defined as follows:

"The fact or relation of having a share or concern in, or a right to, something, esp. by law; a right or title, esp. to (a share in) property or a use or benefit relating to property; (a) share *in* something."

7.357 The word "concern" can be defined as follows:

"Reference, respect, relation. Now *spec.* important relation, importance, interest (chiefly in *of concern (to)*)."<sup>323</sup>

7.358 The difference between these two words is apparently minor, particularly since each appears in the definition of the other quoted above.

7.359 The Regulation uses the same term "legitimate interest" in a related context where it refers to persons who may have access to applications filed with an EC member State in Article 7(2). It uses the more specific term "legitimate economic interest" where it refers to persons who may consult an application in Articles 7(2) and 12d(1), and contrasts it with "legitimate interest" in Article 7(2), which confirms that they have different meanings. However, there is nothing in the context that would suggest that there is a difference between a person with a "legitimate interest" and a "legitimately concerned" person.

7.360 It is pertinent to note that in many places the Regulation uses slightly different words or formulations to refer to an identical concept. For instance, it refers variously to "a third country recognised in accordance with the procedure in Article 12(3)", "[i]n the case provided for in Article 12(3)"; "a third country meeting the equivalence conditions of Article 12(3)"; "a third country recognised under the procedure provided for in Article 12(3)" in Articles 6(6), 12a(1), 12b(2)(b), 12d(1) and 13(5), respectively. There is no suggestion that these mean different things.

7.361 It is also pertinent to recall that Article 7(3) was adopted in 1992, but Articles 12b and 12d were drafted separately and inserted in April 2003. This may explain minor differences between them.

7.362 Even if the meaning of these provisions is different, it appears that the European Communities can apply them in the same manner. Indeed, the European Communities indicates to the Panel that it considers that these two terms have the same meaning and it confirms that the Commission would implement them in the same way. Further, if the Commission's interpretation was ever challenged, the institution with ultimate authority to interpret the measure is the European Court of Justice. We recall the European Communities' explanation of its domestic law set out at paragraph 7.99 that:

"Community legislation must, so far as possible, be interpreted in a manner that is consistent with international law, in particular where its provision are intended specifically to give effect to an international agreement concluded by the Community."<sup>324</sup>

7.363 We note that paragraph 10 of the recitals to the amending Regulation expressly states as follows:

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<sup>323</sup> *The New Shorter Oxford English Dictionary* (1993).

<sup>324</sup> See *supra* at note 131.



"(10) (...) The right of objection should be granted to WTO member countries' nationals with a legitimate interest on the same terms as laid down in Article 7(4) of the said Regulation. (...)." <sup>325</sup>

7.364 This confirms that the difference in the wording of the standing requirements is not intended to create a lower standard for objectors resident or established in WTO Members outside the European Communities but rather that a person that has a "legitimate interest" and a "legitimately concerned" person should be interpreted in the same way.

7.365 Therefore, the Panel concludes that, with respect to the standing requirements for objections, the United States has not made a prima facie case in support of its claims under Article 3.1 of the TRIPS Agreement and Article 2(1) of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement.

Summary of conclusions regarding objection procedures and the TRIPS Agreement

7.366 In summary:

- (a) with respect to the objection procedures, insofar as they require the verification and transmission of objections by governments, the Regulation accords the nationals of other Members less favourable treatment than the European Communities' own nationals inconsistently with Article 3.1 of the TRIPS Agreement;
- (b) with respect to the objection procedures, the Regulation does not impose a requirement of domicile or establishment inconsistently with Article 2(2) of the Paris Convention (1967) as incorporated by Article 2.1 of the TRIPS Agreement;
- (c) with respect to the equivalence and reciprocity conditions, as allegedly applicable to the objection procedures, the United States has not made a prima facie case in support of its claims; and
- (d) with respect to the standing requirements for objections, the United States has not made a prima facie case in support of its claims.

(c) National treatment under GATT 1994

(i) *Main arguments of the parties*

7.367 The **United States** claims that the Regulation is inconsistent with the national treatment obligations under GATT 1994 because it applies conditions of equivalence and reciprocity to the right of objection. <sup>326</sup>

7.368 The United States also claims that the requirement that WTO Members themselves become active participants and advocates for their nationals in analyzing and submitting GI registration applications and objections also amounts to less favourable treatment of non-EC products. This requirement is imposed unilaterally and is both burdensome and unnecessary and acts as an additional barrier to market access for non-EC goods. <sup>327</sup>

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<sup>325</sup> Exhibit COMP-1h.

<sup>326</sup> United States' rebuttal submission, paras. 89-94.

<sup>327</sup> United States' rebuttal submission, para. 95.

7.369 The **European Communities** does not respond to this claim, although it does submit that the right of objection does not affect the treatment of products under GATT 1994.<sup>328</sup> However, in response to a question from the Panel, it indicated that transmission of objections is necessary within the meaning of Article XX(d) of GATT 1994 because it has no significant impact on trade in goods and is a purely ministerial act which would not pose particular difficulties.<sup>329</sup>

(ii) *Consideration by the Panel*

7.370 The Panel recalls its findings in paragraphs 7.30 to 7.33 that the United States presented this claim after the first substantive meeting but that, in the circumstances of this dispute, this had not prejudiced the European Communities' ability to defend itself. For that reason, the Panel decided to consider this claim.

7.371 The Panel recalls its finding at paragraph 7.349 that Article 12d of the Regulation does not apply conditions of equivalence and reciprocity to the right of objection for nationals of other WTO Members.

7.372 The Panel recalls its findings at paragraph 7.338 to 7.341 on the verification and transmission of objections under the Regulation. In the single paragraph of its rebuttal submission devoted to this aspect of the objection procedures and GATT 1994, the United States asserts, but does not demonstrate, that this treatment accorded to nationals amounts to less favourable treatment of products. The arguments concerning verification and transmission in earlier submissions relate to the application procedures only. The rebuttal submission does refer to the procedures for protection of GIs for "products", but that also apparently relates to application procedures only, not the objection procedures which are the subject of this claim.

7.373 The United States has not explained the link between the interests of a person who wishes to file an objection, and the conditions of competition between a product for which GI registration is granted and other products. The Panel declines to embark on an examination of the grounds for objection and speculate on the possible link between those and trade in goods, as it is unable to relieve the United States of the burden of proving all elements of its claim. Accordingly, the Panel considers that the United States has not made a prima facie case in support of its claim with respect to objection procedures under Article III:4 of GATT 1994.

#### 4. Inspection structures

(a) Description of inspection structures (Articles 4, 10 and 12a of the Regulation)<sup>330</sup>

7.374 The condition in Article 12(1) of the Regulation that a "third country ... has inspection arrangements ... equivalent to those laid down in this Regulation" was considered earlier as one of the equivalence and reciprocity conditions. That is a per-country condition. The condition at issue here concerns the inspection structures required by Article 10 of the Regulation under the procedures for registration of individual GIs. This is, allegedly, a per-product requirement.

7.375 The Panel continues its examination in respect of this particular requirement, bearing in mind the aim of the dispute settlement mechanism, which is to secure a positive solution to a dispute<sup>331</sup>, and the views of the Appellate Body in *Australia – Salmon* on the principle of judicial economy.<sup>332</sup> Were

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<sup>328</sup> European Communities' rebuttal submission, para. 173 (in response to Australia's claim concerning individual registrations under the simplified procedure in the former Article 17 of the Regulation).

<sup>329</sup> European Communities' response to Panel question No. 136(d).

<sup>330</sup> European Communities' first written submission, paras. 50-55; rebuttal submission, paras. 96-100.

<sup>331</sup> Article 3.7 of the DSU.

<sup>332</sup> Appellate Body report on *Australia – Salmon*, para. 223.

the Panel not to examine the claim with respect to the inspection structures requirements within the application procedures, its conclusion on the inspection structures condition in Article 12(1) would not enable the DSB to make sufficiently precise recommendations and rulings so as to allow for prompt compliance in order to ensure effective resolution of this dispute.

7.376 The Regulation provides that an application for registration of a GI must be accompanied by certain documents. The first is the product specification. Article 5(3) provides as follows with respect to an application to register a GI located within the European Communities:

"3. The application for registration shall include the product specification referred to in Article 4."

7.377 Article 12a(1) of the Regulation provides as follows with respect to applications to register GIs located in third countries:

"1. Applications must be accompanied by the specification referred to in Article 4 for each name."

7.378 With respect to the specification, Article 4 provides as follows:

"1. To be eligible to use a protected designation of origin (PDO) or a protected geographical indication (PGI) an agricultural product or foodstuff must comply with a specification.

2. The product specification shall include at least: (...)

(g) details of the inspection structures provided for in Article 10;"

7.379 A specification refers to a particular product and the list of items that must be included in a product specification all appear to be product-specific.

7.380 Applications to register GIs located in third countries must also be accompanied by a declaration by a third country government. Article 12a(2)(b) of the Regulation provides for a third country to transmit to the Commission an application to register a GI located in its territory accompanied by:

"(b) a declaration that the structures provided for in Article 10 are established on its territory."

7.381 This declaration is not required of an EC member State when it transmits to the Commission an application to register a GI located within the European Communities. However, EC member States have an obligation under Article 10 itself to ensure that inspection structures are in place. The European Communities confirms that the requirements are the same for EC member States and third countries.<sup>333</sup>

7.382 Article 10(1) explains that the function of inspection structures is "to ensure that agricultural products and foodstuffs bearing a protected name meet the requirements laid down in the specifications". Article 10(2) provides that an "inspection structure" may comprise one or more "designated inspection authorities and/or private bodies approved for that purpose" by the EC member State. Article 10(3) lays down requirements regarding the characteristics and duties of the inspection authorities and/or private bodies but not the product-specific requirements which appear in product

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<sup>333</sup> European Communities' response to Panel question No. 126(a).

specifications. We highlight the requirements for inspection authorities under Article 10(3) which are relevant to the claims below.

7.383 The characteristics of the inspection authorities and/or private bodies include the following:

"Designated inspection authorities and/or approved private bodies must offer adequate guarantees of objectivity and impartiality with regard to all producers or processors subject to their control and have permanently at their disposal the qualified staff and resources necessary to carry out inspection of agricultural products and foodstuffs bearing a protected name."

7.384 The inspection authorities and/or private bodies may outsource certain functions as follows:

"If an inspection structure uses the services of another body for some inspections, that body must offer the same guarantees. In that event, the designated inspection authorities and/or approved private bodies shall, however, continue to be responsible *vis-à-vis* the Member State for all inspections."

7.385 The applicable standards for private bodies are described as follows:

"As from 1 January 1998, in order to be approved by the Member States for the purpose of this Regulation, private bodies must fulfil the requirements laid down in standard EN 45011 of 26 June 1989.

The standard or the applicable version of standard EN 45011, whose requirements private bodies must fulfil for approval purposes, shall be established or amended in accordance with the procedure laid down in Article 15.

The equivalent standard or the applicable version of the equivalent standard in the case of third countries recognised pursuant to Article 12(3), whose requirements private bodies must fulfil for approval purposes, shall be established or amended in accordance with the procedure laid down in Article 15."

7.386 Standard EN 45011 sets out "General requirements for bodies operating product certification systems". It specifies general requirements that a third party operating a product certification system shall meet if it is to be recognized as competent and reliable. These include requirements relating to the certification body itself and its personnel; changes in the certification requirements; applications for, evaluation of, and decisions on, certification; surveillance; use of licences, certificates and marks of conformity; and complaints to suppliers. It applies for EC member States although the European Communities has not yet established the standard or the applicable version of that standard on the basis of Article 10(3) of the Regulation.

7.387 Standard EN 45011 is a European standard that takes over the text of ISO/IEC Guide 65:1996 prepared by the ISO Committee on Conformity Assessment (CASCO). The European Communities has not established an equivalent standard in the case of third countries, but the European Communities informs the Panel that ISO/IEC Guide 65:1996 is an example of such an equivalent international standard.<sup>334</sup>

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<sup>334</sup> The European Communities supplied copies of EN 45011 and ISO/IEC Guide 65:1996 to the Panel in Exhibits EC-2 and EC-3, respectively. See European Communities' response to Panel question No. 126(c).

7.388 The responsibilities of governments with respect to inspection structures are set out in Article 10(1) and (2).<sup>335</sup> Governments must ensure that inspection structures are in place by designating a public inspection authority and/or approving a private inspection body and then notify them to the Commission. Where the government designates a public inspection authority, it carries out inspections itself. Where the government approves a private inspection body, it must ascertain that the private body is capable of fulfilling its functions in accordance with Article 10(1) and meets the requirements of Article 10(3), set out above. The basic criterion for the approval process is that the private body can effectively ensure that products comply with a specification. After designation and/or approval, the government is responsible for continued monitoring that an approved private body continues to meet the requirements.<sup>336</sup>

(b) National treatment under the TRIPS Agreement

(i) *Main arguments of the parties*

7.389 The **United States** claims that the inspection structures requirement is contrary to the national treatment obligations in the TRIPS Agreement, including that in the Paris Convention (1967). The United States submits that it is important to a resolution of this dispute that the Panel make a finding on this particular requirement, as otherwise the European Communities could remove Article 12(1) of the Regulation but impose equivalence by another name through the requirement under Article 12a(2)(b) that another WTO Member provide a declaration that inspection structures are established on its territory.<sup>337</sup>

7.390 The United States argues that the *government participation* by another WTO Member is inconsistent with national treatment under the TRIPS Agreement because a foreign applicant must petition its government to provide a declaration under Article 12a(2)(b).<sup>338</sup> Even though the European Communities argues that the requirement for specific inspection structures accords equal treatment, in cases of formally different legal provisions, the respondent bears the burden of showing that, in spite of such differences, the less favourable treatment standard is met. The inspection structures do not accord equal treatment to EC and other WTO Member nationals because EC member States have an obligation to establish specific structures under the Regulation so that the EC national automatically has a qualifying inspection structure which other WTO Member nationals do not. Many WTO Members have no such inspection structures. Therefore, all EC nationals are in a position to satisfy the inspection structures requirement but nationals of other Members cannot satisfy this condition, at least where the WTO Member concerned has not established the EC inspection structures.<sup>339</sup> It is not clear on what basis a U.S. government authority would be in a position to assess that inspection structures are in place in its territory which would meet the requirements of the Regulation.<sup>340</sup>

7.391 The United States argues that the inspection structure requirements are highly *prescriptive* and go beyond simply assuring that products meet the product specifications. The issue is not which particular aspects of the inspection structures are objectionable. The issue is that, if a Member demands that other WTO Members establish the same particular inspection structures that it has chosen for itself as a precondition for granting TRIPS rights to nationals of other Members, it accords less favourable treatment. The United States does not disagree that the European Communities can

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<sup>335</sup> Article 10(1) and (2) refers to EC member States but, in conjunction with Article 12a(2)(a), they also apply to the governments of third countries.

<sup>336</sup> Uncontested information provided by the European Communities in its responses to Panel question Nos. 127 and 132. See the United States' comments on those EC responses.

<sup>337</sup> United States' rebuttal submission, para. 48; response to Panel question No. 56.

<sup>338</sup> United States' first written submission, para. 81; response to Panel question No. 56.

<sup>339</sup> United States' rebuttal submission, paras. 47-48; second oral statement, para. 25.

<sup>340</sup> United States' rebuttal submission, para. 64.

require, as a condition of registration, that the applicant itself be in a position to control use of the GI and ensure that products bearing the GI are entitled to it. Intellectual property rights are private rights, so the applicant must be in a position to satisfy the requirements for protection and not have to depend on actions of government outside its control. The European Communities has overstated the flexibility in its requirements. Article 12a(2) refers to the structures provided for in Article 10, which refers to a "structure" under which particular bodies may be authorized to conduct inspections. This requires a broad inspection structure capable of inspecting all agricultural products and foodstuffs, not just the one which the applicant seeks to register. It imposes specific requirements that go far beyond what is necessary to ensure the integrity of a GI. The inspection authority must have staff "permanently at its disposal" and, if it is a private body, fulfil the requirements of a European standard and continue to be responsible vis-à-vis the EC member State for all inspections.<sup>341</sup> It is not possible to separate the requirement that the government establish particular inspection systems from other aspects of those systems.<sup>342</sup>

7.392 The United States also argues that, even if certain certification mark holders might qualify as inspection authorities, the Regulation still accords less favourable treatment to the nationals of other Members because (1) the governments of other Members must ensure compliance by providing the declaration under Article 12a(2)(b) and monitoring private inspection bodies; and (2) some other GI right holders who are able to assure the integrity of their GI, such as collective mark owners and common law GI owners, would be excluded. The United States is not challenging the European Communities' basic standard for what constitutes a GI, but it does assert that if a product meets that standard, the non-EC national should be able to register it under the Regulation, regardless of whether its home government has established the same inspection structures as the EC member States.<sup>343</sup>

7.393 The United States argues that the issue of what is *necessary* does not arise under the national treatment obligations in the TRIPS Agreement and the Paris Convention (1967). In any case, the inspection structures required by the Regulation are not necessary. There is no reason to assume that only the government, as opposed to the right holder, can sufficiently assure that products qualify for protection. It is not clear why the government, not the right holder, has to approve or authorize inspection structures.<sup>344</sup>

7.394 The **European Communities** responds that the requirement of inspection structures does not involve any less favourable treatment of foreign nationals. Indeed, it represents equal treatment.<sup>345</sup>

7.395 The European Communities denies that the Regulation imposes equivalence by another name because it requires inspection structures only for products for which protection is sought and on a product-specific basis.<sup>346</sup> It does not impose an EC-model because it merely requires that inspection structures must exist according to the general principles set out in Article 10. This leaves considerable flexibility in the design of the actual structures. In particular, it provides a choice between public and private elements. This flexibility is illustrated by the variety of structures notified by EC member States under Article 10(2). Public bodies are situated at the national, regional and local levels of government; frequently they are general public administrations dealing with many other policy issues besides inspections under the Regulation; private bodies may be commercial

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<sup>341</sup> United States' rebuttal submission, paras. 51-54; second closing oral statement, para. 10.

<sup>342</sup> United States' response to Panel question No. 130.

<sup>343</sup> United States' rebuttal submission, paras. 55-61.

<sup>344</sup> United States' second oral statement, paras. 27-29; comment on EC response to Panel question No. 127.

<sup>345</sup> European Communities' rebuttal submission, paras. 94-95.

<sup>346</sup> European Communities' rebuttal submission, paras. 96-98.

enterprises or not-for-profit and may engage in other activities besides inspections. The European Communities provides examples of two firms which provide inspections as a commercial service.<sup>347</sup>

7.396 The European Communities submits that a GI is less reliable and informative for consumers if its proper use is not ensured by an effective inspection regime. The function of inspection structures is to ensure that products bearing a protected name comply with the product specifications. They are inseparably linked with the object and purpose of the Regulation and their removal would undermine the EC's system of GI protection. In response to the suggested alternative of unfair competition laws, the European Communities does not contest that they may be one way of protecting GIs, but they could not provide an equivalent degree of GI protection as that achieved by the Regulation. For example, a producer would have to have recourse to legal action and could not rely on controls carried out by an inspection body. A consumer would only have the assurance that a competitor might take legal action against non-conforming products. This would also affect the value of the GI for producers and undermine confidence in the EC system. There would be a "free rider" problem if producers from third countries were able to benefit from the EC system without complying with inspection structures.<sup>348</sup>

(ii) *Main arguments of third parties*

7.397 **Argentina** submits that the inspection structures requirements in the Regulation are inconsistent with the TRIPS Agreement. It notes that Article 4(h) [sic] of the Regulation refers to the inspection structures provided for in Article 10, which does not state what is the applicable criterion to identify these structures when the applicant is from a third country. Article 12 requires that a third country must have inspection arrangements equivalent to those laid down in the Regulation. This creates an obstacle which completely escapes the decision of a natural or legal person to accept the requirements of Article 4, given that the decision to create inspection structures is restricted to government and is not foreseen in all third countries. Even in those third countries which do have inspection structures, their structures might not satisfy the requirement of equivalence in Articles 10 and 12 of the Regulation.<sup>349</sup>

7.398 **China** notes that Article 10 of the Regulation sets out detailed provisions on inspection structures in EC member States but not for other WTO Members. Article 12a(2) requires a third country to transmit with an application a declaration that the structures provided for in Article 10 are established on its territory. The Commission determines whether the declaration satisfies the conditions of the Regulation. EC member States are obliged to establish the Article 10 inspection structures and, hence, they are not obliged to guarantee them when they transmit an application and can reasonably expect no objection from the Commission to their designated authorities. It appears that WTO Members are required to establish an "equivalent standard" for private inspection bodies and possibly also for "designated inspection authorities" but there is no guidance as to what constitutes an equivalent standard as the European Communities has submitted ISO/IEC Guide 65:1996 only by way of example. China agrees with the European Communities that product specifications and inspection structures are essential to the value and quality of GIs, but does not find its argument that equivalence and reciprocity conditions apply only in these two respects and not as an outright requirement of a third country's overall system of GI protection.<sup>350</sup>

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<sup>347</sup> European Communities' rebuttal submission, paras. 101-107.

<sup>348</sup> European Communities' rebuttal submission, paras. 109-121.

<sup>349</sup> Annex C, paras. 9-10.

<sup>350</sup> Annex C, paras. 84-91.

(iii) *Consideration by the Panel*

7.399 These claims are brought under Article 3.1 of the TRIPS Agreement and Article 2 of the Paris Convention (1967) as incorporated by Article 2.1 of the TRIPS Agreement. The Panel will consider the claim under Article 3.1 of the TRIPS Agreement first.

7.400 The Panel recalls that two elements must be satisfied to establish an inconsistency with this obligation: (1) the measure at issue must apply with regard to the protection of intellectual property; and (2) the nationals of other Members must be accorded "less favourable" treatment than the Member's own nationals. The Panel will address each of these elements in turn.

Protection of intellectual property

7.401 This claim concerns the inspection structures required in respect of particular products for which individual GIs are registered under the Regulation.

7.402 The Panel recalls that the national treatment obligation in Article 3 of the TRIPS Agreement applies to the treatment accorded by a Member "with regard to the protection of intellectual property". Footnote 3 provides an inclusive definition of the term "protection" as used in Articles 3 and 4. It reads as follows:

"For the purposes of Articles 3 and 4, "protection" shall include matters affecting the availability, acquisition, scope, maintenance and enforcement of intellectual property rights as well as those matters affecting the use of intellectual property rights specifically addressed in this Agreement."

7.403 Turning to the Regulation, inspection structures ensure that *products* meet the requirements in the specifications. Whatever else may be the legal character of those structures, it is clear that the specifications include details of the inspection structures and these must be included in, or accompany, all applications for registration. The declaration under Article 12a(2)(b) must also accompany applications to register GIs located in third countries. Therefore, under this Regulation, the inspection structures are a matter affecting the availability and acquisition of protection for GIs.

7.404 It is not disputed that "designations of origin" and "geographical indications", as defined in the Regulation, are a subset of "geographical indications", the subject of Section 3 of Part II, and therefore part of a category of intellectual property within the meaning of Article 1.2 of the TRIPS Agreement.

7.405 Therefore, this claim concerns the "protection" of intellectual property, as clarified in footnote 3 to the TRIPS Agreement, within the scope of the national treatment obligation in Article 3.1 of that Agreement.

Less favourable treatment accorded to the nationals of other Members

7.406 The Panel recalls its findings:

- (a) at paragraphs 7.185 to 7.203 as to the treatment accorded to the "nationals of other Members" in this dispute; and
- (b) at paragraph 7.134 that under Article 3.1 of the TRIPS Agreement we must examine the "effective equality of opportunities" with regard to the protection of intellectual property rights and at paragraph 7.137 that in this examination we will focus on the "fundamental thrust and effect" of the Regulation.



7.407 No application for registration of a GI located in a third country has ever been filed under the Regulation. However, the United States challenges the Regulation, in this respect, "as such".

7.408 The United States claims that the treatment accorded under the inspection structures requirements for GIs located in third countries is less favourable than that accorded under the inspection structures requirements for GIs located within the European Communities, based on two main aspects: the first relates to the allegedly prescriptive nature of the requirements and the second to the issue of government participation. We will take them up in that order.

#### Allegedly prescriptive requirements for inspection structures

7.409 The Panel notes that the text of Article 10 contains virtually no formal difference between the requirements that apply to GIs located within the European Communities and those located in the territory of third countries. The same substantive requirements for the design of inspection structures apply to the protection of all GIs registered under the Regulation. There is a choice of public inspection authorities, private inspection bodies or both.<sup>351</sup> All authorities and bodies must offer adequate guarantees of objectivity and impartiality and all must have permanently at their disposal the qualified staff and resources necessary to carry out inspections. These requirements apply both to GIs located within the European Communities and to those located in third countries.

7.410 There is one formal difference in Article 10.<sup>352</sup> Paragraph 3 provides that private inspection bodies located in EC member States must fulfil the requirements laid down in standard EN 45011 and those located in third countries must fulfil the requirements laid down in an "equivalent" standard. The Panel notes that standard EN 45011 and ISO/IEC Guide 65:1996, which the European Communities informs us is an example of an equivalent international standard, have the same text and are basically identical. Therefore, this does not appear to amount to a substantive formal difference in Article 10(3). The provisions on public inspection authorities are identical.

7.411 The Panel recalls its finding at paragraph 7.176 that, even if the provisions of the Regulation are formally identical in the treatment that they accord to the nationals of other Members and to the European Communities' own nationals, this is not sufficient to demonstrate that there is no violation of Article 3.1 of the TRIPS Agreement. The question is whether this would imply a modification of the effective equality of opportunities with regard to the protection of intellectual property.

7.412 The United States argues that these provisions, in practice, accord less favourable treatment to the nationals of other Members who enjoy GI protection without inspection structures, or without inspection structures that would satisfy Article 10 of the Regulation, in the territory of other WTO Members. Specifically, it asserts that certain holders of certification marks, collective marks and common law rights would not satisfy the requirements of Article 10(3) and standard EN45011, for instance, with respect to the independence of the inspection body from the producers.

7.413 The Panel recalls that the European Communities' obligation under Article 3.1 of the TRIPS Agreement is to accord no less favourable treatment to the nationals of other Members than it accords to its own nationals. The benchmark for the obligation is the treatment accorded *by the European Communities* to the European Communities' own nationals. The treatment accorded *by other Members* to their own respective nationals is not relevant to this claim. The level of protection in the country of origin does not affect GI protection in the country where GI protection is sought under the

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<sup>351</sup> The European Communities provided a copy of a list published by the Commission of inspection structures notified by EC member States in accordance with Article 10(2) of the Regulation in OJ C 69, 18.3.2002, p.1, reproduced in Exhibit EC-48.

<sup>352</sup> Article 12a(2)(b), which contains a formal difference applicable to third countries only, is dealt with below.

TRIPS Agreement, except to the extent that a lack of GI protection in the country of origin provides a ground to *deny* GI protection in accordance with Article 24.9.<sup>353</sup>

7.414 The Panel agrees with the European Communities that WTO Members are entitled to aim for objective assessment of product conformity, provided that they implement this objective in a WTO-consistent manner. The implication of the United States' argument would be to oblige the European Communities to recognize forms of protection granted by the United States. This would be a kind of reverse equivalence condition.

7.415 It is not contested that the European Communities would apply the same criteria for protection in Article 2, the same requirements for product specifications in Article 4 and the same inspection structures requirements in Article 10 to all applications for registration under the Regulation, both those in respect of GIs located within the European Communities, and those located outside the European Communities. It therefore appears to accord equal treatment. In any event, the Panel notes that Article 10 of the Regulation permits a certain degree of flexibility. Both public inspection authorities and private inspection bodies may be used.<sup>354</sup> The European Communities has also confirmed to the Panel that inspection bodies need not be established for the sole purpose of conducting inspections under Article 10 of the Regulation – public inspection authorities may be general public administrations dealing with public policy issues besides inspection under this Regulation whilst private inspection bodies may engage in a number of other activities.<sup>355</sup>

7.416 The United States objects, in particular, to the requirement in Article 10(3) of the Regulation that inspection bodies must have qualified staff permanently at their disposal. However, the European Communities responds that this may be interpreted flexibly. It submits that this requirement does not exclude the possibility of products for which the entire production process is confined to part of the year, and for which the need for inspection arises only or primarily during that time of the year. In such a case, it submits that the Regulation would not require unnecessary levels of staff to be maintained throughout the year.<sup>356</sup>

7.417 The Panel also notes that the standard specified in the Regulation has the same text and is basically identical to a guide emanating from the International Organization for Standardization and the International Electrotechnical Commission. Further, Article 10(3) permits an "equivalent", and not necessarily identical, standard for GIs located outside the European Communities, which may provide certain flexibility for GIs located outside the European Communities.

7.418 The United States has not referred to an alternative model of independent, objective and impartial assessment of product conformity which would clearly be refused recognition by the European Communities for reasons other than the requirements of government participation, discussed below.

7.419 The United States also argues that the inspection structures requirements go beyond simply assuring that products meet the product specifications. This does not disclose a lack of national treatment.

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<sup>353</sup> See also the consideration of the United States' claim under Article 1.1 of the TRIPS Agreement at paras. 7.762 to 7.767 below.

<sup>354</sup> The European Communities has provided a list of inspection structures notified by EC member States in accordance with Article 10(2) of the Regulation which shows a wide range of public inspection authorities and private inspection bodies. This list is reproduced in Exhibit EC-48.

<sup>355</sup> European Communities' rebuttal submission; paras. 105-106.

<sup>356</sup> European Communities' response to Panel question No. 136(f).

7.420 Therefore, in view of the lack of evidence of different treatment, the Panel concludes that, with respect to the allegedly prescriptive requirements for inspection structures, the United States has not made a *prima facie* case in support of its claim under Article 3.1 of the TRIPS Agreement.

#### Government participation in inspection structures

7.421 The Panel notes that the text of Article 10 of the Regulation, when read in conjunction with Article 12a(2)(b), contains a formal difference between the requirements that apply to GIs located within the European Communities and those located in third countries.

7.422 Article 10 obliges EC member States to ensure that inspection structures are in place. These require that the EC member States designate inspection authorities and/or approve private bodies for that purpose, and monitor them. Third country governments do not have these obligations under the Regulation. However, Article 12a(2)(b) requires that a third country government provide a declaration that the inspection structures are established on its territory together with an application to register a GI located in that territory. This is a condition in the application procedures.

7.423 The parties do not agree as to the content of this declaration. The United States alleges that it relates to the existence of inspection structures in respect of the full range of agricultural products and foodstuffs covered by the Regulation. The European Communities responds that it only applies with respect to particular products.

7.424 The Panel observes that the second equivalence requirement in Article 12(1) appears to relate to inspection structures for the full range of products, whilst the declaration in Article 12a(2)(a) is forwarded with an application for a particular product. Therefore, it appears that this declaration relates only to the inspection structures for a particular product. In any event, it is not disputed that it is only required to accompany applications to register GIs located outside the European Communities. This is a formal difference in treatment.

7.425 The requirement for a third country government to provide a declaration under Article 12a(2)(b) that the inspection structures are established on its territory and the obligation for an EC member State to establish inspection structures complement one another. Both are expressly intended to serve the same purpose of ensuring that agricultural products and foodstuffs bearing a protected name meet the requirements laid down in the specifications. Both depend on the government designating and/or approving, and monitoring, inspection structures.

7.426 An EC member State has an obligation to designate and/or approve, and monitor, inspection structures under the Regulation. In contrast, a third country government has no obligation under Community law to do so nor to provide the declaration under Article 12a(2)(a). Although the TRIPS Agreement contains obligations to protect GIs, it is not asserted that WTO Members have any obligation under that agreement to establish inspection structures such as those required under Article 10 of the Regulation.

7.427 A group or person who submits an application in a third country has no right to have inspection structures designated and/or approved, and monitored, by its own government, and has no right to the requisite declaration by its own government. Moreover, a group or person who submits an application in a third country cannot nominate inspection structures notified under the Regulation by an EC member State and dispense with the declaration by its own government. This is apparent from the terms of the declaration required under Article 12a(2)(b). It has also been confirmed by the European Communities.<sup>357</sup> A group or person who submits an application in a third country must use an inspection authority or private body notified by its own government. As a result, if the third

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<sup>357</sup> European Communities' responses to Panel question Nos. 131 and 136(f).

country government does not designate and/or approve, and monitor, inspection structures and provide the declaration, the group or person cannot obtain protection under the Regulation.

7.428 Therefore, applicants for GIs that refer to geographical areas located in third countries do not have a right in the availability of protection and application procedures that is provided to applicants for GIs that refer to geographical areas located within the European Communities. Applicants in third countries face an "extra hurdle" in ensuring that the authorities in those countries carry out the functions reserved to them under the Regulation, which applicants in EC member States do not face. Consequently, certain applications may be rejected. This significantly reduces the opportunities available to the nationals of other WTO Members in the availability and acquisition of rights under the Regulation below those available to the European Communities' own nationals. For this reason, the Regulation accords nationals of other WTO Members "less favourable treatment" within the meaning of Article 3.1 of the TRIPS Agreement than it accords the European Communities' own nationals.

7.429 The Panel confirms that the European Communities is entitled, under Article 62.1 of the TRIPS Agreement, to require that applicants comply with reasonable procedures and formalities that are consistent with the Agreement in order to prove that they meet the conditions of protection. These might include requirements for applicants to demonstrate that they comply with standards of objective and impartial assessment of conformity. However, Article 62 lies outside the Panel's terms of reference.

7.430 The Panel recalls its finding at paragraph 7.212 that the fact that a general exceptions provision analogous to Article XX of GATT 1994 was not included in the TRIPS Agreement has no impact on its analysis of Article 3.1.

7.431 For these reasons, the Panel concludes that, with respect to the government participation required in the inspection structures under Article 10, and the provision of the declaration by governments under Article 12a(2)(b), the Regulation accords less favourable treatment to the nationals of other Members than to the European Communities' own nationals, inconsistently with Article 3.1 of the TRIPS Agreement.

7.432 The United States has not separately argued its claim under Article 2(1) of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement with respect to the inspection structures requirements.<sup>358</sup> Accordingly, the Panel concludes that, in this respect, it has not made a prima facie case in support of its claim under that provision.

(c) National treatment under GATT 1994

(i) *Main arguments of the parties*

7.433 The **United States** claims that the inspection structures requirement is contrary to Article III:4 of GATT 1994. It argues that the Regulation does not accord equal treatment because it conditions the granting of national treatment on another WTO Member adopting the same compliance structure as the European Communities. This is precisely the reciprocity and *equivalence* conditionality that the national treatment obligation was designed to avoid. An imported product from the U.S. that satisfies the definitions of a GI in the Regulation should receive no less favourable treatment than the domestic product that meets those definitions. However, the product imported from the U.S. is denied protection for reasons unrelated to the characteristics of the product.<sup>359</sup> They are like products.<sup>360</sup> The

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<sup>358</sup> See United States' rebuttal submission, paras. 49 and 60, which refer to no less favourable treatment.

<sup>359</sup> United States' rebuttal submission, paras. 89-94.

<sup>360</sup> United States' second oral statement, paras. 47-48.

additional requirements that the European Communities imposes on other WTO Members, notably to establish specific inspection structures, are simply equivalence by another name and are designed to discourage the registration and protection of foreign GIs.<sup>361</sup>

7.434 The United States argues that the Regulation accords imported products less favourable treatment than domestic products because it requires substantial *government participation* by another WTO Member in the registration process. The government must make a declaration under Article 12a(2). It must establish particular inspection structures, approve inspection bodies, remain responsible for those bodies and satisfy all of the requirements for those bodies and structures as set forth in Article 10 of the Regulation.<sup>362</sup> It appears that the Regulation's approach is unprecedented as the European Communities declined to indicate any other area in which it requires foreign involvement in the designation/approval of conformity assessment bodies where mutual recognition agreements do not already exist.<sup>363</sup>

7.435 The United States argues that this less favourable treatment for imported products cannot be justified under Article XX of GATT 1994.<sup>364</sup> The European Communities has not discharged its burden of proof to show that the inspection structures are so justified.<sup>365</sup> The inspection structures do not appear to have any relationship to any of the product specification requirements in Article 4(2) of the Regulation and therefore do not "secure compliance" with them. The European Communities has not shown how the product specifications are not inconsistent with GATT 1994. The European Communities has not shown that the inspection structures are "necessary" and that there are no WTO-consistent alternatives. It is not clear at all that approval of, and responsibility for, inspection bodies by government rather than the right holder is even preferable, let alone necessary.<sup>366</sup> The European Communities argues that on-site checks "may also" be required which suggests that they are not necessary, and that government involvement is not necessary either. It is untrue that the European Communities cannot provide for on-site inspections outside the European Communities in the absence of a WTO agreement.<sup>367</sup> The inspection structures favour countries that protect GIs in the way that the European Communities does, which arbitrarily and unjustifiably discriminates between countries where the same conditions prevail, contrary to the chapeau of Article XX.<sup>368</sup>

7.436 The **European Communities** responds that this claim should be rejected. The Regulation is fully compatible with Article III:4 of GATT 1994 because the requirements imposed by Article 12a of the Regulation, in conjunction with Articles 4 and 10, do not provide less favourable treatment to imported like products. The European Communities must ensure that GIs from third countries comply with the conditions set out in the Regulation.<sup>369</sup> The European Communities refers to its arguments concerning inspection structures in relation to national treatment under the TRIPS Agreement: they represent equal, not unequal, treatment; they are not equivalence by another name; they do not impose an EC model of inspection structures and their existence is necessary for attaining the objectives of the Regulation.<sup>370</sup>

7.437 The European Communities submits, in the alternative, that the requirements imposed by Article 12a, in conjunction with Articles 4 and 10, with respect to individual GIs, are justified by Article XX(d) of GATT 1994. In particular, they are necessary to ensure that products which use a GI

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<sup>361</sup> United States' second oral statement, para. 49; comment on EC response to Panel question No. 136.

<sup>362</sup> United States' first written submission, paras. 104(d) and 107; response to Panel question No. 129.

<sup>363</sup> United States' comment on EC response to Panel question No. 131.

<sup>364</sup> United States' first written submission, para. 107; first oral statement, para. 38.

<sup>365</sup> United States' rebuttal submission, paras. 100-103.

<sup>366</sup> United States' second oral statement, paras. 53-57.

<sup>367</sup> United States' comment on EC response to Panel question No. 136.

<sup>368</sup> United States' second oral statement, para. 60.

<sup>369</sup> European Communities' first written submission, para. 204.

<sup>370</sup> European Communities' rebuttal submission, paras. 109-121 and 214-215.

and benefit from GI protection conform to the definitions in Article 2(2) of the Regulation, which is itself fully consistent with GATT 1994.<sup>371</sup> Later, it argues that the inspection structures secure compliance with Articles 4(1) and 8 of the Regulation that a product must comply with a product specification and can only bear the PDO and PGI indications if they do so. Article XX(d) does not exclude that "measures necessary to secure compliance" and the "laws and regulations" with which they secure compliance may be part of the same legal act. The objectives of the Regulation may be relevant for establishing the meaning of the provisions with which compliance is secured.<sup>372</sup>

7.438 The European Communities refers to its arguments concerning inspection structures in relation to national treatment under the TRIPS Agreement: they are necessary for the attainment of the objectives of the Regulation by providing a high degree of assurance for producers and consumers that a product bearing a registered GI does, in fact, correspond to the required product specifications; a similar degree of protection could not be achieved through other means such as unfair competition laws; they do not go beyond what is necessary to attain the objectives of the Regulation but leave considerable flexibility in the design of the concrete structures. Moreover, they are not applied in a manner inconsistent with the chapeau of Article XX of GATT 1994.<sup>373</sup> It is necessary for the third country government to designate the inspection authority because the European Communities cannot designate them itself. Designation may require on-site inspections and audits outside the EC's territory. Inspections typically require a presence in or near the area where the GI is located. It is necessary for the bodies to remain responsible to the third country government as some form of public oversight is required to ensure objectivity and impartiality.<sup>374</sup>

7.439 The European Communities refers to the conformity assessment procedures foreseen in Article 6 of the TBT Agreement. Nothing in that agreement obliges Members simply to accept conformity assessment carried out by bodies of another Member. Article 6.1 of the TBT Agreement obliges Members to accept conformity assessment in other Members only under specific conditions, and recognizes that prior consultations may be necessary. Article 6.2 (sic) encourages Members to enter into negotiations for the mutual recognition of conformity assessment procedures. Article 6.4 encourages Members to permit participation of conformity assessment bodies located in the territories of other Members in their conformity assessment procedures but it is not a legal obligation to permit such participation. The United States has concluded a mutual recognition agreement which permits bodies designated by those countries to carry out conformity assessment with respect to EC standards and vice versa.<sup>375</sup> The United States has failed to explain why government involvement in designation of inspection bodies is problematic.<sup>376</sup>

(ii) *Consideration by the Panel*

7.440 This claim concerns the inspection structures requirements for particular products. The Panel recalls its findings:

- (a) at paragraph 7.227, that the Regulation is a law or regulation affecting the internal sale and offering for sale of products within the meaning of Article III:4 of GATT 1994;
- (b) at paragraph 7.228 that the Regulation links the protection of the name of a product to the territory of a particular country and formally discriminates between imported

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<sup>371</sup> European Communities' first written submission, paras. 225-226.

<sup>372</sup> European Communities' response to Panel question No. 135.

<sup>373</sup> European Communities' rebuttal submission, paras. 232-236.

<sup>374</sup> European Communities' response to Panel question No. 136.

<sup>375</sup> European Communities' response to Panel question No. 131.

<sup>376</sup> European Communities' comment on United States' response to Panel question No. 128.

products and products of European Communities origin within the meaning of Article III:4 of GATT 1994;

- (c) at paragraph 7.229 that the European Communities does not contest that there are, among the group of products covered by the Regulation, "like products" among the imported products and products of European Communities origin;
- (d) at paragraph 7.230, that under Article III:4 of GATT 1994 we must examine whether the measure modifies the conditions of competition between domestic and imported products and that in this examination we will focus on the "fundamental thrust and effect of the measure itself";
- (e) at paragraph 7.231 to 7.235 on the substantive advantage provided under Article 13 of the Regulation that affects the conditions of competition of the relevant products;
- (f) at paragraphs 7.409 and 7.410 on the lack of a substantive formal difference between the allegedly prescriptive requirements and at paragraphs 7.414 to 7.419 on the lack of evidence of different treatment accorded by those requirements;
- (g) at paragraphs 7.426 and 7.427 concerning the differences between government participation in the inspection structure requirements which can result in some applications for registration of GIs located in third countries, but not those in EC member States, being rejected; and
- (h) at paragraph 7.428 that rejection of an application would entail non-registration of GIs.

7.441 Non-registration of GIs would lead to a failure of the products from those third countries to obtain the benefits of registration set out in Article 13 of the Regulation. Therefore, the Panel concludes that:

- (a) with respect to the allegedly prescriptive requirements for inspection structures, the United States has not made a *prima facie* case in support of its claim under Article III:4 of GATT 1994; but
- (b) with respect to the requirements of government participation in the inspection structures under Article 10, and the provision of the declaration by governments under Article 12a(2)(b), the Regulation accords less favourable treatment to imported products than domestic products, inconsistently with Article III:4 of GATT 1994.

7.442 The European Communities asserts that the inspection structures requirements are justified by Article XX(d) of GATT 1994. As the party invoking this affirmative defence, the European Communities bears the burden of proof that the conditions of the defence are met.

7.443 At this point, the measures that the European Communities needs to justify are only the requirements for government participation in the designation and/or approval, and monitoring, of inspection structures, and the declaration by governments under Article 12a(2)(b).<sup>377</sup>

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<sup>377</sup> The United States submits that the measures relevant to Article XX(d) are the measures that it alleges are inconsistent with GATT 1994 (United States' comments on EC responses to Panel question No. 135). However, the Panel has not found that the allegedly prescriptive requirements are inconsistent with GATT 1994 and, consequently, it only examines whether the government participation required in the inspection structures is justified under Article XX(d). The Panel does *not* examine whether the less favourable treatment that those

7.444 The Panel notes, once again, that paragraph (d) of Article XX refers to "measures" falling within the following description:

"(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, trade marks and copyrights, and the prevention of deceptive practices;"

7.445 The Panel observes that paragraph (d) refers to measures necessary to "secure compliance". The Regulation states expressly in Article 10(1) that the function of the inspection structures is "to ensure that agricultural products and foodstuffs bearing a protected name meet the requirements laid down in the specifications". On its face, this appears to be an express confirmation that the inspection structures are intended to "secure compliance" with the product specifications.<sup>378</sup>

7.446 The Panel takes note that paragraph (d) refers to measures that secure compliance with laws or regulations, including those relating to "the protection of patents, trade marks and copyrights, and the prevention of deceptive practices". The Regulation provides for the protection of GIs and is an analogous law or regulation, as the European Communities points out.<sup>379</sup> However, the term "laws or regulations" is qualified by the phrase "not inconsistent with the provisions of this Agreement".

7.447 The European Communities submitted that the requirement of inspection structures is "necessary for the attainment of the objectives" of the Regulation.<sup>380</sup> The Panel agrees with previous panels that measures that merely secure compliance with the objectives of a law or regulation, rather than with the laws or regulations themselves, do not fall within the purview of Article XX(d) of GATT 1994 for the reasons explained by the GATT Panel in *EEC – Parts and Components*.<sup>381</sup>

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requirements accord is justified under Article XX(d), consistently with the approach of the Appellate Body in *US – Gasoline*, DSR 1996:I, 3, at 15.

<sup>378</sup> See further note 383 below. It is not clear to what extent the inspection structures secure compliance with the requirement in Article 4(1) of the Regulation, which refers to eligibility. Nor is it clear to what extent they cover use of the PDO, PGI and equivalent indications and, hence, secure compliance with Article 8 of the Regulation.

<sup>379</sup> European Communities' rebuttal submission, para. 234.

<sup>380</sup> European Communities' rebuttal submission, para. 232, citing paras 109-121. The European Communities agrees that the measure to be justified must secure compliance with the provisions of the law or regulation in question but that "the objectives of a regulation may be relevant for establishing the meaning of the provisions with which compliance is secured": see its response to Panel question No. 135(b).

<sup>381</sup> See the Panel report on *Canada – Periodicals*, paras. 5.8-5.10; and Panel report on *Korea – Various Measures on Beef*, at para. 658; both citing the GATT Panel report on *EEC – Parts and Components* which included the following finding at para. 5.17:

"If the qualification 'to secure compliance with laws and regulations' is interpreted to mean 'to ensure the attainment of the objectives of the laws and regulations', the function of Article XX(d) would be substantially broader. Whenever the objective of a law consistent with the General Agreement cannot be attained by enforcing the obligations under that law, the imposition of further obligations inconsistent with the General Agreement could then be justified under Article XX(d) on the grounds that this secures compliance with the objectives of that law. This cannot, in the view of the Panel, be the purpose of Article XX(d): each of the exceptions in the General Agreement – such as Articles VI, XII or XIX – recognizes the legitimacy of a policy objective but at the same time sets out conditions as to the obligations which may be imposed to secure the attainment of that objective. These conditions would no longer be effective if it were possible to justify under Article XX(d) the enforcement of obligations that may not be imposed consistently with these exceptions on the grounds that the objective recognized to be legitimate by the exception cannot be attained within the framework of the conditions set out in the exception."



7.448 The European Communities submits that the requirement of inspection structures is necessary to secure compliance with requirements in the Regulation.<sup>382</sup> The Panel has found that the Regulation is inconsistent with the provisions of GATT 1994 for the reasons set out in this report. Therefore, the Regulation is not a law or regulation within the meaning of paragraph (d). In response to questions, the European Communities argued that these requirements secure compliance with provisions within the Regulation. However, if those provisions could themselves be "laws or regulations" within the meaning of paragraph (d), the European Communities did not demonstrate that they were "not inconsistent" with GATT 1994.<sup>383</sup>

7.449 The Panel notes, once again, the use of the term "necessary" in paragraph (d) of Article XX and recalls the views of the Appellate Body in *Korea – Various Measures on Beef* set out at paragraph 7.298 above that, in this context, a necessary measure is "located significantly closer to the pole of 'indispensable' than to the opposite pole of simply 'making a contribution to'".<sup>384</sup> The Appellate Body summed up its approach to the determination of whether a measure which is not "indispensable" may nevertheless be "necessary" within the meaning of Article XX(d) as a process of weighing and balancing a series of factors. It approved the approach of the GATT Panel in *US – Section 337* that this process is "comprehended" in the determination of whether a WTO-consistent alternative measure which the Member concerned could "reasonably be expected to employ" is available, or whether a less WTO-inconsistent measure is "reasonably available".<sup>385</sup> The Panel will once again follow this approach.

7.450 We recall the European Communities' explanation of its domestic constitutional arrangements, set out at paragraph 7.98, that Community laws are generally not executed through authorities at Community level but rather through recourse to the authorities of its member States which, in such a situation, "act *de facto* as organs of the Community, for which the Community would be responsible under WTO law and international law in general".<sup>386</sup> In accordance with its domestic law, the European Communities is entitled to delegate certain functions under its measure to the authorities of EC member States. However, it is unable to explain adequately why it is necessary for all governments, including third country governments, to designate inspection authorities, approve private inspection bodies, and monitor them, and for third country governments to provide a declaration that they do so, for the purposes of securing compliance with an EC Regulation.

7.451 The European Communities is entitled under GATT 1994 to pursue the objectives set out in Article 10(3) of the Regulation of ensuring that inspection structures are objective and impartial with regard to all producers or processors subject to their control, which might require assessment by a neutral entity. It is not obliged to accept a producer's or supplier's declaration of conformity.

7.452 The European Communities may also be correct, in many cases, that it cannot designate or approve bodies located outside its territory itself because it is unable to ascertain and continuously monitor whether those bodies are capable of fulfilling their functions and meeting the requirements in Article 10(1) and (3), set out above.<sup>387</sup> It is not obliged to enter into mutual recognition agreements,

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<sup>382</sup> European Communities' rebuttal submission, para. 234.

<sup>383</sup> The European Communities argued that the function of inspection structures is to secure compliance with the requirement in Article 4(1) of the Regulation that products bearing a protected name must comply with a product specification. Similarly, the requirement of inspection structures also secures compliance with the requirement in Article 8 of the Regulation that the PDO, PGI and equivalent indications may appear only on products that comply with the Regulation. However, it only explained how the Regulation itself was, in its view, not inconsistent with GATT 1994: see its responses to Panel questions No. 135(a), (c) and (d).

<sup>384</sup> Appellate Body report on *Korea – Various Measures on Beef*, para. 161.

<sup>385</sup> *Ibid.*, para. 166. The Appellate Body also followed this approach to the word "necessary" as used in paragraph (b) of Article XX in *EC – Asbestos*, para. 172.

<sup>386</sup> European Communities' second oral statement, para. 148.

<sup>387</sup> European Communities' responses to Panel question Nos. 131 and 136(f).

although we note that it has recognized numerous conformity assessment bodies designated by other countries, including the United States, in other sectors.<sup>388</sup>

7.453 However, at the same time, the European Communities does not allow the products of other WTO Members to be inspected by its own designated authorities and approved bodies. A group or person who submits an application in a third country must use an inspection structure located in the territory of that country. Such a group or person cannot use an inspection structure notified by an EC member State. The European Communities requires that each government, including third country governments, participate in the inspection structures for products originating in its own territory. Yet we note that, in other areas such as technical regulations, its own designated authorities and approved bodies are open to exporters for assessment of conformity with technical regulations.<sup>389</sup>

7.454 The United States has indicated that the normal practice in conformity assessment is that an importing country imposes its own inspection requirements in its own territory, as necessary, to ensure that imported products meet applicable requirements. It submits that it is unusual that the conformity assessment bodies of the European Communities, as the importing country, cannot be used for imported products under the Regulation.<sup>390</sup> The United States has also explained that, even in those instances in which inspection of manufacturing facilities is required, for instance, with respect to pharmaceutical manufacturing facilities, such inspections are primarily carried out by the administering authorities of the importing country. The exporting country government itself is not required to establish and be responsible for inspection systems.<sup>391</sup>

7.455 The combination of the absence of recognized inspection structures in third countries, and the fact that notified bodies in the European Communities are not available to applicants for GIs located in third countries, effectively excludes the products of third countries from the benefits of protection granted under the Regulation. This is a consequence of the requisite government participation in inspection structures under the Regulation.

7.456 The European Communities has not explained why the conditions of protection and the general requirement that a product bearing a registered GI must comply with a product specification, for which it requires every government to designate its own bodies, distinguish the GI Regulation from other areas, such as technical regulations, where it permits exporters to use notified bodies within the European Communities, where it seeks permission to conduct inspections in exporting countries or where it sometimes recognizes bodies located outside its territory, through mutual recognition agreements or accreditation.

7.457 The European Communities has referred to the contents of a product specification required under Article 4(1) of the Regulation, in particular, the detailed description of the raw materials and methods and processes according to which a product is obtained.<sup>392</sup> On the basis of these items, it

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<sup>388</sup> See European Communities' response to Panel question No. 131.

<sup>389</sup> The European Communities has explained its conformity assessment system to the TBT Committee as follows: "In respect of the Global Approach, which was relevant to conformity assessment, the fundamental point was that the manufacturer (or his authorised representative in the case of imported goods) was responsible for conformity. There was an effort to limit the number of different types of conformity assessment procedures to a reasonably small range (these were referred to as "modules" in the Global Approach). In most cases, the manufacturer was aided by a Notified Body (a certification body – or conformity assessment body) and there was an element of choice in that the manufacturer could chose any Notified Body." See document G/TBT/M/33/Add.1, para. 117.

<sup>390</sup> See the European Communities' comment on responses to Panel question No. 128, in which it confirms that the inspection bodies will be located on the territory of the country of origin of the GI.

<sup>391</sup> United States' comments on EC responses to Panel question No. 136(f).

<sup>392</sup> The European Communities provides examples of product specifications for "Pruneaux d'Agen", "Melons du Haut Poitou", "Dorset Blue Cheese" and "Thüringer Leberwurst" in Exhibits EC-51 through EC-54.

argues that "inspection structures ... may involve on-site inspections at the place of production".<sup>393</sup> The United States argues that there is little or no relationship between the product specifications and the inspection structures.<sup>394</sup>

7.458 The Panel notes that the Regulation requires that the product specifications for each product include the items to which the European Communities refers.<sup>395</sup> However, the European Communities has not explained how and to what extent compliance with them cannot be assessed through reporting requirements or through an inspection of the physical characteristics of products on import by designated bodies located within the European Communities. The Panel accepts that there might be a reason why compliance with these specific requirements must be assessed in the place of production outside the European Communities' territory and that, in these cases, it may be reasonable for the European Communities, as an importing country, to expect certain cooperation from exporting country governments, in particular with respect to information related to the production methods of an agricultural product or foodstuff, in accordance with the provisions of covered agreements.

7.459 However, the European Communities has not explained why the cooperation that it requires from third country governments must take the form of establishing a mandatory inspection structure in which the government plays a central role. It confirms that governments, including third country governments, must carry out inspections to ensure compliance with product specifications in an EC GI registration, or ascertain that a private inspection body can effectively ensure that products comply with the specification and remain responsible for continued monitoring that the private body meets the requirements of the Regulation and, where they are third country governments, provide declarations that they have done so.<sup>396</sup> It asserts, but has not demonstrated, that "[o]nly through some form of public oversight can it be ensured that the inspection body will at all times carry out its functions duly and appropriately in accordance with the requirements of the Regulation".<sup>397</sup> However, in response to a question from the Panel, it was unable to identify any EC Directives governing assessment of conformity to EC technical regulations in the goods area that require third country government participation in the designation and approval of conformity assessment bodies.<sup>398</sup> It has not explained what aspect of GI protection distinguishes it from these other areas and makes it necessary to require government participation, including third country government participation, to the extent that it does.

7.460 The European Communities argues that it does not itself have the inspection bodies that are needed to conduct inspection outside its territory. It also notes that the costs of inspection must be borne by the producer as stipulated in Article 10(7) of the Regulation. It argues that if it were to carry out inspections of imported products bearing a GI, this would result in less favourable treatment for products of domestic origin.<sup>399</sup> The Panel's findings do not imply that the European Communities must establish inspection bodies outside its territory nor that it cannot continue to require producers to bear the costs. The Panel sees these issues as separate from the extent of government participation in inspections required by the Regulation.

7.461 For these reasons, the Panel considers that there are alternative measures available to the European Communities which it could reasonably be expected to employ and which are not

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<sup>393</sup> European Communities' rebuttal submission, paras 112-113 in relation to the same aspect of the Regulation with respect to national treatment under the TRIPS Agreement. See also its response to Panel question No. 136(f).

<sup>394</sup> United States' comment on EC response to Panel question No. 135.

<sup>395</sup> Article 4(2)(b), (d) and (e) of the Regulation, respectively.

<sup>396</sup> This information was provided by the European Communities in its responses to Panel question Nos. 127 and 132 and not contested. See the United States' comments on EC responses.

<sup>397</sup> European Communities' response to Panel question No. 136(g).

<sup>398</sup> European Communities' response to Panel question No. 131.

<sup>399</sup> European Communities' response to Panel question No. 136(h).

inconsistent with GATT 1994 to ensure that products using a registered GI comply with their specifications.

7.462 Therefore, the Panel considers that the European Communities has not discharged its burden of proving that government participation in the designation, approval and monitoring of inspection structures, and the provision of a declaration by governments concerning these matters, is covered by paragraph (d) of Article XX. It is therefore unnecessary to consider the chapeau of Article XX.

7.463 For these reasons, the Panel concludes that, with respect to the requirements of government participation in the inspection structures under Article 10, and the provision of the declaration by governments under Article 12a(2)(b), but in no other respects related to the inspection structures, the Regulation accords less favourable treatment to imported products than domestic products, inconsistently with Article III:4 of GATT 1994, and these requirements are not justified by Article XX(d).

## 5. Labelling requirement

(a) Factual aspects of the labelling requirement in Article 12(2) of the Regulation

(i) *Text of Article 12(2) of the Regulation*

7.464 This claim concerns a labelling requirement in the second indent of Article 12(2) of the Regulation. The parties disagree sharply on the meaning and scope of this provision, read in its context. Therefore, the Panel will begin by quoting Article 12(2) in full before turning to the factual arguments of the parties.

"2. If a protected name of a third country is identical to a Community protected name, registration shall be granted with due regard for local and traditional usage and the practical risks of confusion.

Use of such names shall be authorized only if the country of origin of the product is clearly and visibly indicated on the label."

(ii) *Main arguments of the parties*

7.465 The **United States** claims that this labelling requirement applies to any use of a GI in connection with products from other WTO Members. It notes that this requirement appears as an unlabelled paragraph within Article 12, which addresses GIs located in third countries in general, and not just those that are identical to GIs located in the European Communities. However, it pursues this claim even if it applies only to GIs identical to a GI located in the European Communities.<sup>400</sup>

7.466 The United States claims that this labelling requirement only applies to third country GIs, not the GI located in the European Communities with which they are identical. It argues that this requirement does not address the conditions of registration of GIs located in the European Communities. There is simply no basis for reading this as applying also to GIs located in the European Communities.<sup>401</sup>

7.467 The United States argues that there is nothing in Article 6(6) of the Regulation that would permit the Commission to import the requirement of Article 12(2) into the registration of a GI located

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<sup>400</sup> United States' first written submission, para. 25; rebuttal submission, paras. 76 and 97.

<sup>401</sup> United States' first oral statement, para. 35; response to Panel question No. 48; rebuttal submission, paras. 77 and 98; second oral statement, para. 38.

in the European Communities. Under Article 6(6), an EC GI that gives rise to a "clear distinction in practice" with a homonymous prior registered GI would have to be registered without indicating the country of origin on the label of products. Under Article 12(2), a third country GI must be accompanied by the country of origin.<sup>402</sup>

7.468 The **European Communities** responds that the second subparagraph of Article 12(2) only applies to the GIs in the situation referred to in its first subparagraph. It only applies in cases of identical or homonymous names and not to third country names in general.<sup>403</sup> It confirms that there have been no cases in which this provision has been applied in practice.<sup>404</sup>

7.469 The European Communities argues that "such names" in the second subparagraph refers to both "a protected name of a third country" and a "Community protected name", so that the requirement to indicate the country of origin can apply to both the third country name and the Community name. In practice, this would mean that whichever indication is registered later would normally be required to indicate the country of origin.<sup>405</sup> In both these terms, "protected" means, in principle, "protected under Regulation 2081/92" but "the provision also applies where protection is sought for a protected name from a third country". "Community protected name" covers only protected names of geographical areas located in the European Communities.<sup>406</sup> Article 12(2) covers both a situation where a third country GI is a homonym of an EC GI already on the register, as well as an EC GI which is a homonym of a third country GI already on the register.<sup>407</sup> "Such names" is written in the plural which clearly indicates that the requirement can relate to both the EC and third country GIs.<sup>408</sup> Nothing in the wording of the provision prevents it applying to GIs from both third countries and the European Communities.<sup>409</sup> Even if "Community protected name" referred to EC and third country names already on the register, "protected name of a third country" should be interpreted to include names protected in a third country, whether or not from the European Communities or a third country.<sup>410</sup> In the European Communities' view, Article 12(2) has no specific link with Article 12(1).<sup>411</sup>

7.470 The European Communities argues that, in cases of homonymous GIs from the European Communities, the last indent of Article 6(6) also requires a clear distinction in practice between them which would normally, in practice, require the indication of the country of origin.<sup>412</sup> The only reason why the last indent of Article 6(6) does not explicitly require the indication of the country of origin is that this provision deals with a wider set of conflicts than Article 12(2).<sup>413</sup> There is no difference between the word "homonymous" in Article 6(6) and "identical" in Article 12(2) as the English definitions of those words are synonymous and the French and Spanish versions use the same term in both provisions.<sup>414</sup> Article 6(6) deals with a wider set of conflicts than Article 12(2), such as homonyms from within the European Communities, homonyms from within the same third country or

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<sup>402</sup> United States' response to Panel question No. 118.

<sup>403</sup> European Communities' first written submission, paras. 88 and 133; rebuttal submission, para. 144; second oral statement, para. 80.

<sup>404</sup> European Communities' response to Panel question No. 44.

<sup>405</sup> European Communities' first written submission, paras. 88, 134-135 and 211; rebuttal submission, para. 145.

<sup>406</sup> European Communities' response to Panel question No. 41.

<sup>407</sup> European Communities' response to Panel question No. 43.

<sup>408</sup> European Communities' rebuttal submission, para. 147.

<sup>409</sup> European Communities' second oral statement, para. 81.

<sup>410</sup> European Communities' second oral statement, para. 82.

<sup>411</sup> European Communities' response to Panel question No. 117.

<sup>412</sup> European Communities' first written submission, para. 89; response to Panel question No. 118.

<sup>413</sup> European Communities' first written submission, para. 479.

<sup>414</sup> European Communities' response to Panel question No. 119.

different third countries.<sup>415</sup> Article 6(6) simply refers to "protected names" from the European Communities and a third country, without specifying which of these is the one the subject of an application and which is already on the register.<sup>416</sup>

7.471 The European Communities argues that "clearly and visibly indicated" must be evaluated in each specific case from the point of view of what a normally attentive consumer can easily notice and not be induced in error as to the origin of the product.<sup>417</sup>

(iii) *Consideration by the Panel*

7.472 The Panel begins by noting that the second indent of Article 12(2) of the Regulation expressly sets out a requirement that concerns what is indicated on "the label" of a product. Therefore, for the sake of brevity, the Panel refers to it as "the labelling requirement".<sup>418</sup> The labelling requirement has not been applied in practice. However, the United States challenges this aspect of the Regulation "as such".

7.473 The meaning of the various terms in the second indent of Article 12(2) is essential to a resolution of this claim. Therefore, it is necessary for the Panel to make an objective assessment of the meaning of this provision, although solely for the purpose of determining the European Communities' compliance with WTO obligations.<sup>419</sup>

7.474 The parties disagree on the scope of the labelling requirement. The United States argues that it applies to all GIs from third countries, like the wider context in Article 12, which applies to all GIs from third countries that satisfy the conditions in paragraph 1 and are recognized as equivalent under paragraph 3. The European Communities responds that it applies only to identical or homonymous GIs, consistent with the immediate context in paragraph 2 of Article 12.

7.475 The Panel observes that the scope of the labelling requirement is indicated by its subject: "[u]se of such names". "Such" is a demonstrative adjective that refers to something previously specified, which expressly requires an examination of the context. The context indicates that "such names" refers to the subject of the previous indent, which is eligible GIs from third countries that are identical to a Community protected name. This is confirmed by the content of the two indents: the first refers to practical risks of confusion, and the second imposes a requirement that a detail be clearly and visibly indicated, which appears to be a specific requirement that addresses the more general consideration in the first. Whilst it is possible to look back further in the context and read the phrase "[u]se of such names" as referring to the names or GIs in the preceding paragraph 1, such a reading is, in our view, constrained. We note that the position of paragraph 2 near the beginning of Articles 12 through 12d might suggest that it is a more general provision, but its position can perhaps be explained by the fact that it is one of the two original provisions on GIs from third countries that predate the insertion of Articles 12(3) and 12a through 12d. The European Communities has confirmed that "such names" refers to the previous indent, which covers only identical GIs. On the basis of the text of the provision, which has not been applied, the Panel agrees.

7.476 The parties disagree on the meaning of "such names" even if it only refers to "identical" GIs.<sup>420</sup> The United States argues that it refers to the subject of the previous indent, which is "a

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<sup>415</sup> European Communities' response to Panel question No. 42.

<sup>416</sup> European Communities' rebuttal submission, para. 146.

<sup>417</sup> European Communities' response to Panel question No. 120.

<sup>418</sup> The use of this term does not prejudice whether this is a "labelling requirement" as used in Annex 1.1 of the TBT Agreement.

<sup>419</sup> In this regard, the Panel recalls its comments at para. 7.55.

<sup>420</sup> The Panel notes that, whilst the English version of the Regulation uses the word "identical" in Article 12(2), two other official versions of the Regulation use words corresponding to the English word

protected name of a third country" that is identical to a Community protected name. The European Communities responds that it refers not only to "a protected name of a third country" which is identical, but also to the "Community protected name" with which it is identical.

7.477 The Panel considers, once again, that, "such names" refers to the subject of the previous indent, which is eligible GIs from third countries that are identical to a Community protected name. Although the term "a Community protected name" also appears in the previous indent, its registration is not in issue. It appears that the first indent relates only to the registration of GIs from a third country. The second indent attaches a condition to that registration which, logically, only applies to the use of GIs from a third country.

7.478 This reading is confirmed by the wider context in Articles 12 through 12b which relates only to the registration of GIs from third countries. The registration of GIs located within the European Communities is dealt with in Articles 5 through 7. A provision permitting objections to such registrations from persons in third countries was inserted in Article 12d in April 2003. It would be a very special reading if the second indent of Article 12(2) were the sole provision in the scheme of Articles 12 through 12b that attached a condition to registration of GIs located within the European Communities, which is unlikely, given that context. The Panel takes note that the term "such names" is in the plural, unlike "a protected name of a third country" which is in the singular. However, the qualifier "such names" is linked to "the product" which is in the singular, so that the plural form is not determinative of the issue before us.

7.479 Therefore, the Panel concludes that Article 12(2), including the labelling requirement in the second indent, refers only to the registration and use of a GI from a third country that is identical to a "Community protected name." It appears that this refers to a GI that is already registered under the Regulation, as no party has suggested a reason why it would matter for this requirement where the prior GI was located, as long as it was identical.

7.480 The Panel also notes that the first indent of Article 12(2) contains language almost identical to that found in Article 6(6) of the Regulation. Both refer to registration of names "with due regard for local and traditional usage and the actual risk [or practical risks] of confusion". However, Article 6(6) applies to an application to register a GI located *within the European Communities* which "concerns a homonym of an already registered name from the European Union or a third country recognised in accordance with the procedure in Article 12(3)". Unlike the second indent of Article 12(2), the last tirt of Article 6(6) sets out the following requirement:

"[T]he use of a registered homonymous name shall be subject to there being a clear distinction in practice between the homonym registered subsequently and the name already on the register, having regard to the need to treat the producers concerned in an equitable manner and not to mislead consumers".

7.481 The Panel will revert to the parallel in the construction of the requirements in Articles 12(2) and 6(6) in its consideration of this claim.

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"homonymous": these are *homonyme* in the French version and *homónima* in the Spanish version. The Panel assumes that the meaning of the different versions of the text can be reconciled, and uses the word "identical" in relation to Article 12(2) in the English version of this report in such a sense. See further para. 7.492 below.

## (b) National treatment under the TRIPS Agreement

(i) *Main arguments of the parties*

7.482 The **United States** claims that the Regulation accords less favourable treatment to third country nationals than to EC nationals because Article 12(2) imposes a requirement on the registration of GIs located in third countries that does not apply to GIs located in the European Communities, inconsistently with the national treatment obligations in the TRIPS Agreement.<sup>421</sup> It provides that the third country GI must be burdened by a clear and visible indication of the country of origin on the label, which is a violation of national treatment obligations. This is in the nature of a qualifier that detracts from the value of the GI by implying that it is something other than the "true" GI. There is also the issue of labelling costs, although that will depend on how particular imported products are labelled in the first place. This remains an additional burden on foreign nationals that is not faced by EC nationals. The United States does not believe that existing marks of origin requirements in the European Communities would satisfy this requirement.<sup>422</sup>

7.483 The **European Communities** argues that Article 12(2) of the Regulation does not discriminate between nationals because it applies according to the location of geographical areas, not nationality.<sup>423</sup> It can relate to both EC and third country GIs. Application of the requirement to indicate the country of origin to the later registered GI is the only feasible option because, according to Article 4(2)(h), the specifications of the GI already on the register will include specific labelling details which it is not easy to amend.<sup>424</sup> The European Communities does not see in which way a requirement to indicate truthfully the origin of a product constitutes less favourable treatment.<sup>425</sup>

(ii) *Consideration by the Panel*

7.484 This claim is brought under Article 3.1 of the TRIPS Agreement. The Panel recalls that two elements must be satisfied to establish an inconsistency with this obligation: (1) the measure at issue must apply with regard to the protection of intellectual property; and (2) the nationals of other Members must be accorded "less favourable" treatment than the Member's own nationals.

Protection of intellectual property

7.485 This claim concerns the labelling requirement in respect of a limited subset of GIs that may be registered under the Regulation. Footnote 3 provides an inclusive definition of the term "protection" as used in Articles 3 and 4. It reads as follows:

"For the purposes of Articles 3 and 4, 'protection' shall include matters affecting the availability, acquisition, scope, maintenance and enforcement of intellectual property rights as well as those matters affecting the use of intellectual property rights specifically addressed in this Agreement."

7.486 Turning to the Regulation, the labelling requirement relates to the "use" of an identical GI on a product. Whatever else may be the legal character of this requirement, through its inclusion in the provisions of Article 12, which sets out the conditions on which the Regulation may apply to GIs located in third countries, it attaches a specific condition to registration of certain GIs. Therefore,

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<sup>421</sup> United States' first written submission, para. 68.

<sup>422</sup> United States' response to Panel question No. 120.

<sup>423</sup> European Communities' first written submission, paras. 137-138.

<sup>424</sup> European Communities' rebuttal submission, para. 147.

<sup>425</sup> European Communities' second oral statement, para. 83.



under this Regulation, the labelling requirement is a matter affecting the acquisition of protection for GIs.<sup>426</sup>

7.487 It is not disputed that "designations of origin" and "geographical indications", as defined in the Regulation, are a subset of "geographical indications", the subject of Section 3 of Part II, and therefore part of a category of intellectual property within the meaning of Article 1.2 of the TRIPS Agreement.

7.488 Therefore, this claim concerns the "protection" of intellectual property, as clarified in footnote 3 to the TRIPS Agreement, within the scope of the national treatment obligation in Article 3 of that Agreement.

Less favourable treatment accorded to the nationals of other Members

7.489 The Panel recalls its findings:

- (a) at paragraphs 7.185 to 7.203 as to the treatment accorded to the "nationals of other Members" in this dispute; and
- (b) at paragraph 7.134 that under Article 3.1 of the TRIPS Agreement we must examine the "effective equality of opportunities" with regard to the protection of intellectual property rights and at paragraph 7.137 that in this examination we will focus on the "fundamental thrust and effect" of the Regulation.

7.490 The United States claims that the treatment accorded under the labelling requirement for GIs located in third countries, including WTO Members, is less favourable than that accorded to GIs located within the European Communities.

7.491 The Panel has found at paragraph 7.479 that the labelling requirement only applies to GIs from third countries that are identical to a Community protected name. This is a narrow circumstance.

7.492 The Panel notes that Articles 12(2) and 6(6) share almost identical language that indicates that the purpose of each provision is to minimize actual, or practical, risks of confusion between the use of two registered identical or homonymous GIs. An obvious difference in the English version is that Article 12(2) uses the word "identical" and Article 6(6) uses the word "homonymous". However, two other official versions of the Regulation use the same word in both provisions (*homonyme* in French and *homónima* in Spanish). The Panel assumes that the meaning of the different versions of the text can be reconciled, and that, therefore, the words in Articles 12(2) and 6(6) can have the same meaning in English as well.

7.493 Both requirements are mandatory, providing that use "shall" be authorized only if a particular condition is met or "shall" be subject to a particular condition. However, there is a formal difference in that Article 12(2) states the condition expressly that "the country of origin of the product is clearly and visibly indicated on the label". In contrast, Article 6(6) states the condition in terms of factors that "a clear distinction in practice between the homonym registered subsequently and the name already on the register, having regard to the need to treat the producers concerned in an equitable manner and not to mislead consumers".

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<sup>426</sup> It can be noted that the second indent of Article 12(2) is not the only provision of the Regulation which refers to "use". Article 4 of the Regulation refers to "use" of a GI by a product in accordance with a specification, which includes labelling under Article 4(h) and which, according to Articles 5(3) and 12a(1), is part of the application for registration.

7.494 In light of the applicable standard of examination set out at 7.489(b), the Panel does not consider that the mere fact that nationals of other Members and the European Communities' own nationals are subject to different legal provisions is in itself conclusive in establishing an inconsistency with Article 3.1 of the TRIPS Agreement.<sup>427</sup>

7.495 The European Communities explains that this difference between the wording of the relevant provisions is due to the fact that Article 6(6) applies to a wider class of GIs. For example, it could apply to identical GIs located in different EC member States, as well as to a GI within the European Communities identical to a GI located in a third country, which Article 12(2) cannot.

7.496 The essential point is that nothing in the text appears to prevent the European Communities implementing the two requirements in the same manner where an application is made to register a GI, whether located within the European Communities or in a third country, that is identical to a prior registered GI. It appears that the wording of Article 6(6) permits the European Communities to apply the same condition found in the text of Article 12(2) so that both requirements would be applied according to which GI was registered later in time, irrespective of the nationality of the applicant or user or the location of the GI. The European Communities has confirmed to the Panel that the clear distinction in practice would normally require the indication of the country of origin.<sup>428</sup>

7.497 The United States has not provided any evidence that the formal difference in the wording of the two requirements leads to any difference in treatment nor that it accords any different treatment to the nationals of other Members. It has not provided evidence that, where the European Commission applies the same condition under the labelling requirement in Article 12(2) and the last tirt of Article 6(6), that such a practice would not survive a legal challenge before the European Court of Justice.

7.498 The Panel recalls the European Communities' submission that, according to the settled case law of the European Court of Justice, "Community legislation must, so far as possible, be interpreted in a manner that is consistent with international law".<sup>429</sup>

7.499 Therefore, for the above reasons, in particular the confirmation by the European Communities that the clear distinction in practice under Article 6(6) would normally require the indication of the country of origin, the Panel concludes that, with respect to the labelling requirement, the United States has not made a *prima facie* case in support of its claim under Article 3.1 of the TRIPS Agreement.

(c) National treatment under GATT 1994

(i) *Main arguments of the parties*

7.500 The **United States** claims that the Regulation accords less favourable treatment to imported products than to EC products because Article 12(2) imposes a requirement on the registration of GIs located outside the European Communities that does not apply to GIs located in the European Communities, inconsistently with Article III:4 of GATT 1994.<sup>430</sup>

7.501 The United States argues that this requirement provides that the third country GI must be burdened by a clear and visible indication of the country of origin on the label, which is a violation of national treatment obligations. This is in the nature of a qualifier that detracts from the value of the

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<sup>427</sup> See also the GATT Panel report on *US – Section 337*, at para. 5.11, regarding the no less favourable treatment standard, cited with approval by the Appellate Body in *US – Section 211 Appropriations Act*, para. 264.

<sup>428</sup> European Communities' first written submission, para. 479; response to Panel question No. 118.

<sup>429</sup> See *supra* at note 131.

<sup>430</sup> United States' first written submission, para. 106.

GI by implying that it is something other than the "true" GI. There is also the issue of labelling costs, although that will depend on how particular imported products are labelled in the first place. This remains an additional burden on imported products that is not faced by EC products. The United States does not believe that existing marks of origin requirements in the European Communities would satisfy this requirement.<sup>431</sup>

7.502 The United States does not consider that this is a general country of origin requirement as described in Article IX of GATT 1994 but rather is a special rule triggered by the fact that a third country product is characterized as a GI and is intended to encumber the third country GI itself. There is nothing in Article IX that exempts such a requirement from the obligation to provide no less favourable treatment to imported products.<sup>432</sup>

7.503 The United States argues that the European Communities has not made a prima facie case under Article XX(d) of GATT 1994 and has failed to make any showing that the requirement that third country GIs be identified with a country of origin is necessary to ensure compliance with a WTO-consistent law or regulation. In any case, the less favourable treatment under the Regulation cannot be justified under that provision.<sup>433</sup> The fact that the requirement is not mandatory for EC GIs under Article 6(6) of the Regulation is an admission that the requirement is not "necessary".<sup>434</sup>

7.504 The **European Communities** responds that this claim is unfounded. Article 12(2) of the Regulation does not accord less favourable treatment but rather treats EC and imported products alike.<sup>435</sup>

7.505 The European Communities argues that Article III:4 is not applicable. Marks of origin are dealt with in Article IX of GATT 1994, which contains an MFN obligation but not a national treatment obligation. This omission implies that Members are free to impose country of origin marking requirements only with respect to imported products and not domestic products.<sup>436</sup>

7.506 The European Communities argues, in the alternative, that the requirement to indicate the country of origin is justified by Article XX(d) of GATT 1994. It serves the purpose of achieving a clear distinction in practice between homonymous GIs and prevents consumer confusion. Article 12(2) achieves this in the least intrusive way by requiring that the GI registered later, which is typically the one less known to the consumer, be the one for which the country of origin must be indicated. This complies with paragraph (d) and the chapeau of Article XX.<sup>437</sup>

(ii) *Consideration by the Panel*

7.507 This claim concerns the labelling requirement in Article 12(2) of the Regulation "as such". The Panel recalls its findings:

- (a) at paragraph 7.227, that the Regulation is a law or regulation affecting the internal sale and offering for sale of products within the meaning of Article III:4 of GATT 1994;

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<sup>431</sup> United States' response to Panel question No. 120.

<sup>432</sup> United States' first oral statement, para. 35; rebuttal submission, para. 99; response to Panel question No. 122.

<sup>433</sup> United States' first oral statement, para. 38; second oral statement, para. 59.

<sup>434</sup> United States' comment on EC response to Panel question No. 136.

<sup>435</sup> European Communities' first written submission, para. 212.

<sup>436</sup> European Communities' first written submission, paras. 213-217.

<sup>437</sup> European Communities' first oral statement, para. 73; rebuttal submission, paras. 240-242.

- (b) at paragraph 7.228 that the Regulation links the protection of the name of a product to the territory of a particular country and formally discriminates between imported products and products of European Communities origin within the meaning of Article III:4 of GATT 1994;
- (c) at paragraph 7.229 that the European Communities does not contest that there are, among the group of products covered by the Regulation, "like products" among the imported products and products of European Communities origin;
- (d) at paragraph 7.230, that under Article III:4 of GATT 1994 we must examine whether the measure modifies the conditions of competition between domestic and imported products and that in this examination we will focus on the "fundamental thrust and effect of the measure itself"; and
- (e) at paragraph 7.479 that the labelling requirement only applies to identical GIs.

7.508 In light of the applicable standard of examination set out at 7.507(d), the Panel does not consider that the mere fact that imported products are subject to legal provisions that are different from those applying to products of national origin is in itself conclusive in establishing inconsistency with Article III:4.<sup>438</sup> However, the Panel recalls its findings:

- (a) at paragraph 7.496 concerning the differences in the wording of Articles 12(2) and 6(6) of the Regulation; and
- (b) at paragraph 7.497 that the United States has not provided any evidence that the formal difference in the wording of the requirements in the second indent of Article 12(2) and the last tiret of Article 6(6) leads to any difference in treatment.

7.509 Therefore, for the above reasons, in particular the confirmation by the European Communities that the clear distinction in practice under Article 6(6) would normally require the indication of the country of origin, the Panel concludes that, with respect to the labelling requirement, the United States has not made a *prima facie* case in support of its claim under Article III:4 of GATT 1994.

7.510 As for the European Communities' argument that this labelling requirement cannot be subject to the national treatment obligation in Article III:4 of GATT 1994 due to the terms of Article IX of GATT 1994 on marks of origin, it suffices to note that the labelling requirement is part of the Regulation, which is a law or regulation affecting the internal sale and offering for sale of products within the meaning of Article III:4 of GATT 1994. In any event, it has not been shown that this is, in fact, a requirement to display a mark of origin.<sup>439</sup>

7.511 However, in view of our finding at paragraph 7.509 that the United States has not made a *prima facie* case in support of this claim, it is unnecessary for the purposes of this dispute to reach a definitive view on these questions, and the Panel's views do not imply any view on the relationship of Articles III:4 and IX:1 of GATT 1994.

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<sup>438</sup> See also the GATT Panel report on *US – Section 337*, at para. 5.11.

<sup>439</sup> For example, the GATT CONTRACTING PARTIES Recommendation of 21 November 1958 on marks of origin, para. 5, "Countries should accept as a satisfactory marking the indication of the name of the country of origin in the English language introduced by the words 'made in': BISD 7S/30. That example shows that a mark of origin can be different from the labelling requirement at issue.

C. TRADEMARK CLAIM

1. The relationship between GIs and prior trademarks

(a) Introduction

7.512 The **United States** claims that the Regulation is inconsistent with Article 16.1 of the TRIPS Agreement because it does not ensure that a trademark owner may prevent uses of GIs which would result in a likelihood of confusion with a prior trademark.<sup>440</sup> Its claim only concerns valid prior trademarks, not trademarks liable to invalidation because they lack distinctiveness or mislead consumers as to the origin of goods.<sup>441</sup> It does not dispute that GIs that are identical or similar to trademarks may be used, but only to the extent that they do not result in a likelihood of confusion with respect to prior trademarks.<sup>442</sup>

7.513 The **European Communities** responds that this claim is unfounded for several reasons: (1) Article 14(3) of the Regulation, in fact, prevents the registration of GIs, use of which would result in a likelihood of confusion with a prior trademark; (2) Article 24.5 of the TRIPS Agreement provides for the "coexistence" of GIs and prior trademarks; (3) Article 24.3 of the TRIPS Agreement requires the European Communities to maintain "coexistence"; and (4) in any event, Article 14(2) of the Regulation would be justified as a limited exception under Article 17 of the TRIPS Agreement.<sup>443</sup>

7.514 For the sake of brevity, the Panel uses the term "coexistence" in this report to refer to a legal regime under which a GI and a trademark can both be used concurrently to some extent even though the use of one or both of them would otherwise infringe the rights conferred by the other. The use of this term does not imply any view on whether such a regime is justified.

7.515 The Panel will begin its examination of this claim by describing Article 14(2) of the Regulation and how the Regulation can, in principle, limit the rights of the owner of a trademark subject to Article 14(2) against the use of a GI. We will then assess whether Article 14(3) of the Regulation prevents a situation from occurring in which a trademark would be subject to Article 14(2). If Article 14(3) cannot prevent that situation from occurring, we will proceed to examine whether Article 16.1 of the TRIPS Agreement requires Members to make available to trademark owners the right to prevent confusing uses of signs, even where the signs are used as GIs. If it does, we will consider whether Article 24.5 provides authority to limit that right and, if Article 24.5 does not, conclude our examination by assessing whether Article 17 or Article 24.3 of the TRIPS Agreement permits or requires the European Communities to limit that right with respect to uses of signs used as GIs.

(b) Description of Article 14(2) of the Regulation

7.516 Article 13 of the Regulation sets out the protection conferred by registration of a GI under the Regulation. Paragraph 1 provides for the prevention of certain uses of the GI and other practices. These are negative rights to prevent, essentially, uses which are misleading as to the origin of a product or otherwise unfair.

7.517 Under the European Communities' domestic law, it is considered that the Regulation impliedly grants the positive right to use the GI in accordance with the product specification and other terms of its registration to the exclusion of any other sign. The European Communities explains, and

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<sup>440</sup> United States' first written submission, para. 170.

<sup>441</sup> United States' first oral statement, paras. 42-43.

<sup>442</sup> United States' rebuttal submission, para. 183.

<sup>443</sup> European Communities' first written submission, paras. 268-273.

the United States does not contest, that under the European Communities' domestic law, this positive right is implicit in several provisions, including Article 4(1), which refers to eligibility to use a protected designation of origin or a protected geographical indication; Article 8, which provides that the indications PDO and PGI and equivalent national indications may appear only on agricultural products and foodstuffs that comply with the Regulation; and Article 13(1)(a) which provides protection for registered names against direct or indirect commercial use on certain conditions. Without this positive right, in the European Communities' view, the protection granted by Article 13 would be "meaningless". Accordingly, under the European Communities' domestic law, that positive right prevails over the rights of trademark owners to prevent the use of a sign that infringes trademarks.<sup>444</sup>

7.518 A registered GI may be used together with other signs or as part of a combination of signs but the registration does not confer a positive right to use any such other signs or combination of signs or to use the name in any linguistic versions not entered in the register.<sup>445</sup> Therefore, the registration does not affect the right of trademark owners to exercise their rights with respect to such uses.<sup>446</sup>

7.519 Article 14 of the Regulation governs the relationship of GIs and trademarks under Community law. Paragraph 1 deals with later trademarks. It provides for the refusal of trademark applications where use of the trademark would infringe the rights in a GI already registered under the Regulation. This, in effect, ensures that a registered *GI prevails over a later trademark*.

7.520 Paragraph 2 of Article 14 deals with prior trademarks. It provides as follows:

"2. With due regard to Community law, a trademark the use of which engenders one of the situations indicated in Article 13 and which has been applied for, registered, or established by use, if that possibility is provided for by the legislation concerned, in good faith within the territory of the Community, before either the date of protection in the country of origin or the date of submission to the Commission of the application for registration of the designation of origin or geographical indication, may continue to be used notwithstanding the registration of a designation of origin or geographical indication, provided that no grounds for its invalidity or revocation exist as specified by Council Directive 89/194/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks and/or Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark." [footnotes omitted]

7.521 This is an exception to Article 13, as it provides for the continued use of a prior trademark even though use of that trademark would conflict with the rights conferred by registration of a GI under the Regulation. It prevents the exercise of rights conferred by registration of a GI against the continued use of that particular prior trademark and is an express recognition that, in principle, *a GI*

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<sup>444</sup> Confirmed in the European Communities' response to Panel question No. 139.

<sup>445</sup> The European Communities explains that "[t]he positive right extends only to the linguistic versions that have been entered into the register" in its response to Panel question No. 140; see also its rebuttal submission, paras. 288 and 293; response to Panel question No. 137 and comment on US response to that question. A different "linguistic version" means a translation which renders the name differently. Some GIs are registered in more than one linguistic version: see, for example, the second, fourth and eleventh GIs set out *supra* at note 52.

<sup>446</sup> Under Community law, those rights would become meaningless if there was no positive right to use the registered GI. See European Communities' rebuttal submission, para. 301; responses to Panel question Nos. 139 and 140 (but contrast its comment on Australia's response to Panel question No. 137).

and a trademark can coexist under Community law. It is intended to implement Article 24.5 of the TRIPS Agreement.<sup>447</sup>

7.522 Article 14(2) only applies:

- (a) with respect to the GI, where a particular indication satisfies the conditions for protection, including the definitions of a "designation of origin" or a "geographical indication", and is not subject to refusal on any grounds, including those in paragraph 3 of Article 14 (discussed below);
- (b) with respect to the trademark, where a particular sign has already been applied for, registered, or established by use in good faith and there are no grounds for its invalidity or revocation; and
- (c) where use of that trademark would infringe the GI registration.

7.523 The scope of Article 14(2) is confined temporally to those trademarks applied for, registered or established by use either before the GI is protected in its country of origin or before the date of submission to the Commission of an application for GI registration.

7.524 The text of Article 14(2) begins with the introductory phrase "[w]ith due regard to Community law". This refers, among other things, to the Community Trademark Regulation and the First Trademark Directive<sup>448</sup>, both of which provide that trademark registration confers the right to prevent "all third parties" from certain uses of "any sign", including uses where there exists a likelihood of confusion.<sup>449</sup> This corresponds to the right provided for in Article 16.1 of the TRIPS Agreement.

7.525 However, Article 159 of the Community Trademark Regulation, as amended<sup>450</sup>, provides as follows:

"This Regulation shall not affect Council Regulation (EEC) No. 2081/92 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs of 14 July 1992, and in particular Article 14 thereof."  
[original footnote omitted]

7.526 This ensures that the rights conferred by a trademark registration against "all third parties" and uses of "any sign" do not prevail over a third party using a registered GI in accordance with its registration. It does not limit the rights conferred by a trademark registration against any other third

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<sup>447</sup> Paragraph 11 of the recitals to the April 2003 amending Regulation explained that the dates referred to in Article 14(2) should be amended in line with Article 24.5 of the TRIPS Agreement: see Exhibit COMP-1h. Article 14(2) has been interpreted once by the European Court of Justice, in Case C-87/97, *Consorzio per la tutela del formaggio Gorgonzola v Käserai Champignon Hofmeister GmbH & Co Kg* [1999] ECR I1301, concerning the trademark CAMBOZOLA for cheese and the GI "Gorgonzola". The opinion of the Advocate-General was submitted by the United States in Exhibit US-17 and the judgement of the Court was submitted by the European Communities in Exhibit EC-32.

<sup>448</sup> European Communities' response to Panel question No. 138. The "Community Trademark Regulation" refers to Council Regulation (EC) No. 40/94 on the Community trade mark, as amended by Council Regulation (EC) No. 1992/2003 and Council Regulation (EC) No. 422/2004, set out in Exhibit COMP-7. The "First Trademark Directive" refers to the First Council Directive 89/104/EEC to approximate the laws of the member States relating to trade marks, set out in Exhibit COMP-6.

<sup>449</sup> Article 9 of the Community Trademark Regulation and Article 5 of the First Trademark Directive.

<sup>450</sup> Article 142 of the original Council Regulation (EC) No. 40/94 was renumbered Article 159 by Article 156(5) of Council Regulation (EC) No. 1992/2003.

party.<sup>451</sup> The same applies to trademarks protected under the national laws of the EC member States: due to the principle of the primacy of Community legislation, a trademark owner's rights cannot prevail over a third party using a GI registered under the Regulation in accordance with its registration. The rights conferred by a trademark registration against other third parties are not affected.

7.527 Accordingly, the trademark owner's right provided by trademark legislation in the implementation of Article 16.1 of the TRIPS Agreement, in principle, cannot be exercised against a person who uses a registered GI in accordance with its registration where the trademark is subject to Article 14(2) of the Regulation.

7.528 The phrase "[w]ith due regard to Community law" also refers to other legislation, such as labelling and misleading advertising legislation, which qualify the right to continue use of a trademark under Article 14(2). Conversely, the same legislation allows persons, including trademark owners, to take action against certain uses of a registered GI which are not covered by the GI registration.<sup>452</sup>

7.529 Paragraph 3 of Article 14 provides as follows:

"3. A designation of origin or geographical indication shall not be registered where, in the light of a trade mark's reputation and renown and the length of time it has been used, registration is liable to mislead the consumer as to the true identity of the product."

7.530 This is a condition for the registration of a GI, as it provides for the refusal of registration of a GI that is liable to mislead the consumer as to the true identity of the product in light of certain factors relevant to a prior trademark. This, in effect, provides that *a prior trademark may prevail* over a later application for GI registration under certain conditions.

7.531 The European Communities argues that Article 14(3) of the Regulation, together with the criteria for registrability of trademarks applied under EC law, prevent the registration of a GI, use of which would result in a likelihood of confusion with a prior trademark. The United States disagrees. The Panel will consider this factual issue below.

(c) Article 14(3) of the Regulation

(i) *Main arguments of the parties*

7.532 The **United States** submits that the Panel's task is to make an objective assessment of the facts, including with respect to the meaning of Article 14(3) of the Regulation. It argues that the European Communities' interpretation is irreconcilable with the way in which the terms included in this provision have been interpreted in other provisions.

7.533 The United States argues that it is no defence that the number of trademarks deprived of the right provided for in Article 16.1 of the TRIPS Agreement may be small (a fact that it does not concede). Trademarks can incorporate certain geographical elements. If that geographical name subsequently qualifies for GI protection under the Regulation, it will inhibit the ability of the trademark owner from preventing confusing uses. Non-geographical names can be registered as GIs

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<sup>451</sup> European Communities' first written submission, para. 317; response to Panel question No. 76; rebuttal submission, para. 336.

<sup>452</sup> European Communities' response to Panel question No. 140.



under the Regulation. There are actual examples of geographical names registered as trademarks in the European Communities without distinctiveness acquired through use.<sup>453</sup>

7.534 The United States argues that Article 14(3) is the sole provision in the Regulation that addresses the confusing use of registered GIs vis-à-vis trademarks and it does not satisfy the obligations under Article 16.1 of the TRIPS Agreement. Article 16.1 provides a right owed to the owner of any valid registered trademark but Article 14(3) of the Regulation is limited to a subset of trademarks by its reference to "a trade mark's reputation and renown and the length of time it has been used". There is no guidance in the Regulation with respect to this standard.<sup>454</sup> A seminar presentation by an EC official in March 2004 characterized this as a requirement of "long use" and the Commission Guide to the Regulation also explains Article 14 without referring to likelihood of confusion.<sup>455</sup> The criteria in Article 14(3) are different from, and more restrictive than, those in Article 16.1. Had the Regulation been intended to implement Article 16.1, why did it use language not found in Article 16.1 that was plainly more restrictive?<sup>456</sup> The United States refers to the opinion of the Committee on Legal Affairs and the Internal Market of the European Parliament on the Commission's proposal to insert the current text of Article 14(2). That Committee had proposed an addition to Article 14(2) which would have subjected the Regulation to the right to bring proceedings for trademark infringement but this was not accepted by the Commission.<sup>457</sup>

7.535 The United States argues that the threshold prerequisites of reputation, renown, and length of time used are factors generally used to determine the scope of protection given to "well-known" or "famous" trademarks under Article 6*bis* of the Paris Convention (1967) and Articles 16.2 and 16.3 of the TRIPS Agreement. They correspond to the factors used for this purpose in the Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks adopted by the Assembly of the Paris Union and the General Assembly of WIPO in 1999.<sup>458</sup> A statement of Ministerial reasoning in Hungary indicated that its rule on the protection of a prior well-known mark corresponds to the ground for refusal of a GI registration in Article 14(3) of the Regulation. The Community Trademark Regulation and Trademark Directive refer to "reputation" in their provisions on rights to prevent confusing uses of signs on dissimilar goods. The interpretation of that factor by the European Court of Justice and the practice of the Office for Harmonization in the Internal Market indicate at the very least uninterrupted use for a considerable number of years.<sup>459</sup> "Reputation" is not relevant in assessing likelihood of confusion in all cases, such as identical signs for identical goods. A trademark registered in only one EC member State without reputation, renown, or length of time of use would also fail the standard in Article 14(3) of the Regulation.<sup>460</sup>

7.536 The United States argues that Article 14(3) does not provide a right to the "owner of a trademark", as required by Article 16.1, but merely authorizes the EC authorities to decline

<sup>453</sup> United States' rebuttal submission, paras. 167-170; second oral statement, paras. 74-75.

<sup>454</sup> The United States' first written submission refers to a trademark that has been used for a "long" time and has "considerable" reputation and renown: see paras. 158-159. Its first oral statement refers to trademarks of a "certain" reputation or "particular" renown, and used for "any" length of time: see para. 52.

<sup>455</sup> Exhibits US-23 and US-24.

<sup>456</sup> United States' rebuttal submission, paras. 143-144.

<sup>457</sup> United States' first written submission, paras. 166-169. The Opinion (document 2002/0066(CNS) dated 10 September 2002) is reproduced in Exhibit US-21 and attached to the Report of the Committee on Agriculture and Rural Development (document A5-0375/2002 dated 6 November 2002) reproduced in Exhibit COMP-14. The United States also cites certain statements by the Advocate-General of the European Court of Justice and the European Commission that Article 14(2) envisages "coexistence" of registered GIs with a valid prior trademark. This issue has been considered at para. 7.521.

<sup>458</sup> The Joint Recommendation is reproduced in Exhibit US-58.

<sup>459</sup> United States' rebuttal submission, paras. 146-152.

<sup>460</sup> United States' second oral statement, para. 85.

registration of a GI in limited circumstances. Intellectual property rights are private rights.<sup>461</sup> Article 14(3) does not afford a right to prevent uses as the trademark owner cannot necessarily tell, at the time of registration of the GI, whether its subsequent use will be confusing. For example, a GI may be used in a "trademark like manner", in translation or in a manner that emphasizes certain of its aspects or letters in a way that causes a likelihood of confusion.<sup>462</sup> The product specifications do not always limit the way in which GIs are used so that it is not always evident what use will be protected by registration.<sup>463</sup> In litigation pending in an EC member State, a Czech brewer has argued that registration grants the right to use the disputed names in translations. In other proceedings in an EC member State and outside the European Communities, one of the Czech beer GIs registered under the Regulation was considered confusingly similar to the trademark BUDWEISER.<sup>464</sup> The Czech beer GIs also show that registration is also possible outside the established procedures in the Regulation, such as through an accession treaty, in a manner that precludes objections based on Article 14(3) or any other provision.<sup>465</sup>

7.537 The United States argues that if an action can be brought under Article 230 of the EC Treaty for annulment of a registration, EC rules require it to be brought within two-months of the publication of the registration. Actual confusing uses of a registered GI may not become apparent within two-months and Article 16.1 of the TRIPS Agreement does not permit any such expiration. Referrals under the preliminary ruling procedure in Article 234 of the EC Treaty are also subject to the two-month deadline if the trademark owner could have challenged the registration under Article 230.<sup>466</sup> Even the European Communities does not assert that all trademark owners would have the opportunity to challenge a registration after the two-month deadline under Article 230. Registrations pursuant to accession protocols do not appear to be subject to challenge at all.

7.538 The United States argues that Articles 7(4) and 14(3) of the Regulation must be read cumulatively. If Articles 7(4) and 14(3) were both applied to all trademarks, the phrase "reputation and renown and length of time used" would be read out of Article 14(3). Articles 7(5)(b) and 14(3) must also be read cumulatively. If Article 14(3) is interpreted in the light of Article 7(5)(b), it still only applies to trademarks that satisfy the factors in Article 14(3). In any case, Article 7(5)(b) only applies where EC member States are unable to agree.<sup>467</sup> Article 7(4) is insufficient to implement Article 16.1 of the TRIPS Agreement in the registration procedure because the European Communities does not consider that Article 16.1 confers a right of objection. In any case, there is no right of objection under the Article 17 procedure or where GIs are registered through an act of accession. The United States also argues that it is insufficient because it is not available on a non-discriminatory basis. This argument has been considered earlier.<sup>468</sup>

7.539 The United States argues that Community law on labelling, advertising and unfair competition do not offer trademark owners the standard of protection required by Article 16.1 of the

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<sup>461</sup> United States' first written submission, para. 54; rebuttal submission, para. 136.

<sup>462</sup> United States' first oral statement, paras. 54-55; rebuttal submission, para. 131.

<sup>463</sup> United States' second oral statement, para. 78. The United States provides copies of the applications for the following registered GIs: "Timoleague Brown Pudding", "Lausitzer Leinöl", "Kanterkaas", "Katernagelkass", "Kanterkomijnnekass" and "Newcastle Brown Ale". The summaries of product specifications show labelling requirements that are either "PGI" or the protected terms themselves. These are reproduced in Exhibit US-77.

<sup>464</sup> United States' response to Panel question No. 137.

<sup>465</sup> United States' response to Panel question No. 67.

<sup>466</sup> United States' rebuttal submission, paras. 138-140; second oral statement, para. 83.

<sup>467</sup> United States' rebuttal submission, paras. 160-164.

<sup>468</sup> United States' rebuttal submission, para. 137.

TRIPS Agreement. For example, a right to prevent injurious, deceptive advertising is no substitute for the right to prevent confusing uses of an identical or similar sign.<sup>469</sup>

7.540 The **European Communities** argues that, as a factual matter, the risk of registration of a GI confusingly similar to a prior trademark is very limited due to the criteria for registrability of trademarks applied under EC law. Moreover, Article 14(3) of the Regulation, if properly interpreted, is sufficient to prevent the registration of any confusing GIs.<sup>470</sup> The complainant bears the burden of proving that its interpretation of Article 14(3) is the only reasonable one and that the European Communities' interpretation is not reasonable or that the provision is being applied in a manner which results in the registration of confusing GIs.<sup>471</sup>

7.541 The European Communities argues that the criteria for the registrability of trademarks limit *a priori* the possibility of conflicts between GIs and earlier trademarks. Geographical names are primarily non-distinctive and, as such, are not apt for registration as trademarks. Their use may also be deceptive insofar as they are used for goods that do not originate in the location that they designate. Under EC law, they may only be registered as a trademark where the geographical name is not currently associated, and it can reasonably be assumed that it will not be associated in the future, with the product concerned; or where the name has acquired distinctiveness through use.<sup>472</sup>

7.542 The European Commission considers that the criteria listed in Article 14(3) of the Regulation are not exhaustive, so that other relevant criteria may be taken into account in order to assess whether the registration of the GI will result in a likelihood of confusion, such as the similarity between the signs or between the goods concerned. The likelihood of confusion will depend to a large extent on the degree of distinctiveness which the trademark has acquired through use. A trademark consisting of a GI, which has never been used or has no reputation or renown, should not have been registered in the first place because it would lack the required distinctiveness.<sup>473</sup> The length of time a trademark has been used does not limit Article 14(3) to cases where the trademark has been used for a long time as it is conceivable that a trademark which has been used for a relatively short period of time may have become strongly distinctive through other means, e.g. publicity.<sup>474</sup>

7.543 The European Communities submits that reputation, renown, and length of time of use are not threshold prerequisites under Article 14(3) of the Regulation but are criteria for assessing whether the GI is misleading. They are relevant for the purposes of establishing likelihood of confusion even where a trademark is not a "well-known" mark. Reputation functions as a threshold pre-requisite in the context of the "anti-dilution" provisions in the Community Trademark Regulation and the Trademark Directive but that would not be justified in a situation involving signs for similar goods. There is no credible evidence that it functions this way under Article 14(3): the presentation cited by the United States is oversimplified and has no legal authority; the Commission's Guide to the Regulation repeats verbatim the working of Article 14(3) and alludes to other cases of conflicts in Article 13(1); and the provision of Hungary's law cited by the United States does not implement the Regulation.<sup>475</sup>

7.544 The European Communities informs the Panel that the only instance in which Article 14(3) has been applied was the registration of "Bayerisches Bier" as a GI. There was no suggestion that this decision was based on the fact that the trademarks concerned were not famous enough or had not been

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<sup>469</sup> United States' second oral statement, para. 81.

<sup>470</sup> European Communities' first written submission, paras. 275-277.

<sup>471</sup> European Communities' first written submission, para. 292; rebuttal submission, paras. 271-276.

<sup>472</sup> European Communities' first written submission, paras. 278-285; rebuttal submission, para. 270.

<sup>473</sup> European Communities' first written submission, paras. 286-291.

<sup>474</sup> European Communities' response to Panel question No. 68.

<sup>475</sup> European Communities' second oral statement, paras. 163-172.

used for long enough. The complainants have not identified an example of a GI which gives rise to a likelihood of confusion with an earlier trademark. Registration covers only the term in the specification and not its translations into other languages unless the term is the same in translation. The three Czech beer GIs also contain a unique endorsement that they apply "without prejudice to any beer trademark or other rights existing in the European Union on the date of accession".<sup>476</sup>

7.545 The European Communities argues that Article 14(3) requires the EC authorities to refuse registrations and does not allow for a margin of discretion. It can be invoked before the courts after registration of a GI, including in trademark infringement proceedings brought against a user of a GI. This applies to registrations under the ordinary procedure in Article 6 or the "fast-track" procedure in Article 17. A trademark owner may raise the invalidity of the measure before the courts under the preliminary ruling procedure in Article 234 of the EC Treaty. Depending on the factual circumstances of each case, a trademark owner may also have standing to bring an action in annulment under Article 230 of the EC Treaty, if a GI registration were considered to affect adversely specific substantive trademark rights. A two-month time limit applies to the action in annulment and, in specific circumstances, may also apply to the preliminary ruling procedure.<sup>477</sup> Under both procedures, judicial review is available on points of fact and law. The cancellation procedure is set out in Article 11a of the Regulation and the grounds mentioned in Articles 11 and 11a are exhaustive.<sup>478</sup>

7.546 The European Communities notes that Article 7(4) of the Regulation provides that an objection is admissible if it "shows that the registration of the name proposed would jeopardize the existence ... of a mark". It argues that this language is broad enough to encompass any instance of likelihood of confusion with any mark. Logically, Article 14(3) must permit registration to be refused in such cases. Article 7(5)(b) refers expressly to a decision having regard to the "likelihood of confusion".<sup>479</sup>

7.547 The European Communities argues that, in principle, a GI which has been found not to be confusing *per se* following the assessment required by Article 14(3) should not subsequently give rise to confusion.<sup>480</sup> In its view, GIs and trademarks can be presented in a similar fashion. Whether or not a particular sign falls within the scope of a particular GI registration is a factual question to be resolved by the courts on a case-by-case basis.<sup>481</sup>

7.548 The European Communities argues that Community law provides the means to prevent use of a registered GI in a confusing manner. Failure to comply with the product specifications in the registration may lead to cancellation. The right conferred by registration does not extend to other names or signs not in the registration. Registration does not cover translations. A presentation of a GI in a mutilated or deformed manner may be deemed different from the registered sign and not protected. Use of a GI is subject to the Community directives on labelling, presentation and advertising of foodstuffs and on misleading advertising and the EC member States' unfair competition laws.<sup>482</sup>

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<sup>476</sup> European Communities' rebuttal submission, paras. 286-293; response to Panel question No. 142.

<sup>477</sup> European Communities' responses to Australia's question Nos. 2 and 3 after the second substantive meeting.

<sup>478</sup> European Communities' responses to Panel question Nos. 67 and 142; rebuttal submission, paras. 294-297; second oral statement, paras. 174-179.

<sup>479</sup> European Communities' first written submission, para. 336; response to Panel question No. 68; rebuttal submission, paras. 282-285.

<sup>480</sup> European Communities' response to Panel question No. 137.

<sup>481</sup> European Communities' second oral statement, paras. 182-184.

<sup>482</sup> European Communities' rebuttal submission, paras. 298-303; response to Panel question No. 63.

7.549 The European Communities argues that few, if any, Members provide a remedy to prevent confusing use of a registered trademark without first obtaining cancellation, invalidation or revocation of the trademark registration. In the same way, Community law does not provide a remedy to prevent use of a registered GI on the grounds that it is confusing, although the trademark owner may request a judicial ruling that the GI registration is invalid on those grounds.<sup>483</sup>

(ii) *Main arguments of third parties*

7.550 **Argentina, Brazil, India and Mexico** indicated, in response to a question from the Panel, that they were not aware of any GIs registered under the Regulation that were identical or confusingly similar to a trademark owned by their respective nationals and protected in the European Communities.<sup>484</sup>

7.551 **Brazil** argues that Article 16.1 of the TRIPS Agreement deals with trademarks in general and not only with those referred to in the narrow terms of Article 14(3) of the Regulation, which refers to the trademark's reputation, renown, and the length of time it has been used, and its liability to mislead the consumer as to the true identity of the product.<sup>485</sup>

7.552 **New Zealand** argues that Article 14(3) conditions the rights of a prior registered trademark owner on certain factors, such as reputation, renown and length of time of use, for which there is no basis in Article 16.1 of the TRIPS Agreement.<sup>486</sup>

7.553 **Chinese Taipei** argues that Article 14(3) of the Regulation only prevents the registration of a trademark if it fulfils the conditions of reputation, renown and length of time of use. This provision negates the right granted to trademark owners pursuant to Article 16.1 of the TRIPS Agreement.<sup>487</sup>

(iii) *Consideration by the Panel*

7.554 The United States does not take issue in this dispute with trademarks protected later in time than a GI. Therefore, there is no need to consider Article 14(1) of the Regulation. Moreover, it does not take issue in this dispute with the *dates* for establishing which trademarks are considered earlier than a GI under Article 14(2) of the Regulation. Therefore, there is no need to consider that issue either.

7.555 The United States challenges coexistence under the Regulation "as such". It relies on the fact that Article 14(2) of the Regulation, on its face, can apply to certain trademarks and, when it does, the Regulation will limit the right of the owner of such a trademark against the use of a GI.<sup>488</sup>

7.556 The parties largely agree on the factual implications, in principle, of the application of Article 14(2). It allows the continued use of a trademark on certain conditions but, at the same time, the Regulation confers a positive right to use a GI which prevents the owner of a trademark from exercising the right conferred by that trademark against a person who uses a registered GI in accordance with its registration. The particular right of a trademark owner at issue is the right to

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<sup>483</sup> European Communities' second oral statement, para. 181; response to Panel question No. 139.

<sup>484</sup> See their comments in Annex C at paras. 19, 37, 106 and 120.

<sup>485</sup> Annex C, para. 29.

<sup>486</sup> Annex C, paras. 148-152.

<sup>487</sup> Annex C, para. 178.

<sup>488</sup> Although Article 14(2) of the Regulation is drafted as an exception to GI protection in Article 13, it is not disputed that in most of the situations described in Article 13, in which Article 14(2) applies, the use of the GI would otherwise constitute infringement of the trademark. If Article 14(3) were able to prevent the registration of any GI, use of which could otherwise constitute a trademark infringement, Article 14(2) would be redundant in all of these situations.

prevent uses of a sign that would result in a likelihood of confusion, which is discussed in paragraphs 7.598 to 7.603 below.

7.557 The European Communities' first defence is that Article 14(3) can prevent the registration of any GI which would subject a prior trademark to Article 14(2), where the GI could be used in a manner that would result in a likelihood of confusion. This is a factual issue for the Panel to decide. This involves matters of interpretation of an EC Regulation which forms part of the European Communities' domestic law. It is necessary for the Panel to make an objective assessment of the meaning of this provision, although solely for the purpose of determining the European Communities' compliance with its WTO obligations.<sup>489</sup>

7.558 As a preliminary remark, the Panel does not consider that this defence is necessarily contradicted by the European Communities' other defences that it is fully entitled and even required under the TRIPS Agreement to apply its coexistence regime, regardless of whether a GI would otherwise infringe the rights in a prior trademark. However, given that this is the European Communities' view of its rights and obligations under the TRIPS Agreement, it would seem coincidental if Article 14(3) of the Regulation could operate in a way that a GI would never, in fact, otherwise infringe the rights in a prior trademark.

7.559 Turning to the text of Article 14(3) of the Regulation, the Panel's first observation is that it requires GI registration to be refused where it would be "liable to mislead the consumer as to the true identity of the product". This is limited to liability to mislead as to a single issue, and not with respect to anything else.

7.560 The Panel's second observation is that Article 14(3) specifically prohibits GI registration "in light of a trade mark's reputation and renown and the length of time it has been used". It is clear that these factors must all be taken into account in the application of Article 14(3). It is difficult to imagine how Article 14(3) could be applied without some consideration of the similarity of the signs and goods as well.<sup>490</sup> However, even if these factors are not exhaustive, and even if they do not require strong reputation, wide renown and long use, they indicate that the scope of Article 14(3) is limited to a subset of trademarks which, as a minimum, excludes trademarks with no reputation, renown or use. Article 14(3) does not prevent the registration of a GI on the basis that its use would affect any prior trademark outside that subset.

7.561 The Panel's third observation on the text of Article 14(3) is that it does not refer to use (of the GI) or to likelihood or to confusion, when other provisions of the Regulation do. Articles 7(5)(b), 12b(3) and 12d(3) permit refusal of a GI registration "having regard to" or "taking account of" factors including the "actual likelihood of confusion" and the "actual risk of confusion".<sup>491</sup> This indicates that the standard in Article 14(3) that registration would "mislead the consumer as to the true identity of the product" is intended to apply in a narrower set of circumstances than the trademark owner's right to prevent use that would result in a likelihood of confusion.<sup>492</sup>

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<sup>489</sup> In this regard, the Panel recalls its comments at para. 7.55.

<sup>490</sup> Article 14(3) presupposes the applicability of Article 13, which requires a consideration of the similarity of the goods and signs.

<sup>491</sup> Articles 7(5)(b) and 12d(3) do not apply to GIs located in third countries. To the extent that they apply to GIs located in the European Communities, they only apply in limited circumstances where there is an admissible objection from an EC member State, other than the one which transmitted the application, or a third country, and they do not provide that the actual likelihood or risk of confusion is an absolute ground for refusal.

<sup>492</sup> The TRIPS Agreement does not define the terms "likelihood of confusion" and "mislead the public as to the geographical origin". These terms define the scope of protection provided for in Articles 16.1 and 22.2 of the TRIPS Agreement and apply in a very wide range of factual situations. Therefore, the Panel considers it

7.562 For these reasons, the Panel considers that the United States has made a *prima facie* case that Article 14(3) of the Regulation cannot prevent all situations from occurring in which Article 14(2) would, in fact, limit the rights of a trademark owner.

7.563 Consistent with this view, it can be noted that the European Communities specifically rejected a proposal by a Committee of the European Parliament to amend Article 14(2) so as to subject it to the trademark owners' rights when Article 14 was amended in April 2003.<sup>493</sup> This at least suggests that Article 14(3) was considered different from a blanket protection of trademark rights.

7.564 The European Communities has submitted that the United States' interpretation of Article 14(3) would conflict with Article 7(4), which provides that a statement of objection shall be admissible *inter alia* if it shows that the proposed GI registration would jeopardize the existence of a mark. It asserts that this language encompasses any instance of likelihood of confusion between the proposed GI and a prior trademark.<sup>494</sup> It has not explained why the text does not set forth the likelihood of confusion standard, when the following provision of the Regulation in Article 7(5)(b) does. The contrast is marked. Article 7(5)(b) sets out a procedure to reach agreement in cases where an objection is admissible, which appears to indicate that it contains a lower standard than the ground for objection in Article 7(4).

7.565 The European Communities has submitted that the criteria for registrability of a trademark limit *a priori* the risk of GIs being confused with a prior trademark, but it does not submit that they completely eliminate that risk. The evidence shows that signs eligible for protection as GIs can and have been registered as trademarks in the Community.<sup>495</sup> The European Communities has not shown that the criteria for registrability of trademarks can anticipate adequately a situation in which a GI could be used in a way that results in a likelihood of confusion with a trademark, wherever Article 14(3) of the Regulation does not provide for refusal of registration of a GI. Those criteria and Article 14(3) would have to offset each other in every case. However, Article 14(2) and (3) apply to trademarks that are already protected. They cannot apply to signs which do not satisfy the trademark registrability criteria, either because they are geographical names or for whatever other reason, and have been refused registration, are subject to invalidation or are otherwise unprotected. These signs are filtered out before Article 14 of the GI Regulation comes into play. Given that Article 14(3) applies to a subset of protected trademarks, those to which it does *not* apply have by definition already satisfied the trademark registrability criteria.

7.566 There is also the question of how Article 14(3) can protect a trademark owner's right to prevent uses which occur subsequent to GI registration. In response to a question from the Panel as to whether Article 14(3) could be invoked if use of the GI would otherwise infringe the trademark *subsequent* to GI registration, the European Communities submitted that it could.<sup>496</sup> The parties then made various submissions on this point, based on which the Panel makes the following observations:

- (a) the Regulation does not refer to invalidation under Article 14(3). It sets out cancellation procedures in Articles 11 and 11a, the grounds for which do not appear

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inappropriate to embark on a detailed interpretation of these or similar terms unless necessary for the purposes of the resolution of the dispute, which is not the case here.

<sup>493</sup> The Committee proposal is set out in Exhibits COMP-14 and US-21.

<sup>494</sup> European Communities' response to Panel question No. 68; rebuttal submission, paras. 282-285.

<sup>495</sup> For example, the following are registered Community trademarks: CALABRIA for pasta; DERBY for milk and chocolate based products; WIENERWALD for prepared meals, condiments and other goods and services. Extracts of registrations are reproduced in Exhibits US-74, US-75 and US-76, respectively.

<sup>496</sup> European Communities' response to Panel question No. 67; see also its rebuttal submission, paras. 270 and 296. The Panel's findings do not imply any view on whether a requirement to seek GI invalidation as a condition precedent to obtaining relief against trademark infringement would be consistent with the enforcement obligations under the TRIPS Agreement.

to relate to the improper application of Article 14(3). If invalidation procedures are possible, it would be as a matter of general Community law under the EC Treaty;

- (b) Article 230 of the EC Treaty provides a procedure for a direct challenge to the validity of a Community measure before the Court of First Instance of the European Communities on the condition that the applicant "is directly and individually concerned" by the measure. It is not submitted by any party that all trademark owners can satisfy that condition. Further, this procedure is subject to a two-month time limit which could render it unavailable to certain trademark owners who did satisfy that condition<sup>497</sup>;
- (c) Article 234 of the EC Treaty provides a procedure for an indirect challenge to a Community measure under which a court of an EC member State can refer a question to the European Court of Justice for a preliminary ruling. This procedure could be invoked in a trademark infringement proceeding to obtain invalidation of a GI registration. It is not clear in what circumstances this procedure is available to a trademark owner who could have invoked the Article 230 procedure. The procedure under Article 234 would only be available where the court of the EC member State considered the question of validity of the GI necessary to resolve the trademark infringement action. In any case, the decision not to refuse a registration under Article 14(3) of the Regulation would be interpreted in the preliminary ruling as at the time of that decision, and not at the time of the subsequent allegedly infringing use<sup>498</sup>; and
- (d) Article 14(3) may not be applicable in all cases as it is not clear whether GIs registered in accordance with the terms of an Act of Accession to the European Union (there are three such GIs) can be invalidated on the basis of that provision.<sup>499</sup>

7.567 In light of these observations, the Panel considers that there is no evidence to show that it is possible to seek invalidation of a GI registration under Article 14(3) in *all* cases in which use of a GI would otherwise be found to infringe a prior trademark. In those cases where it is not possible, it would be necessary for the owner of a prior trademark to be able to anticipate, at the time of the proposed GI registration, all subsequent uses of the proposed GI that would result in a likelihood of confusion. There is no reason to believe that this is possible. The evidence submitted to the Panel shows that GI registrations under the Regulation simply refer to names without limiting the way in which they are used. Indeed, it became apparent in the course of the proceedings that what the United States regards as "trademark-like use" is, in the European Communities, considered perfectly legitimate use as a GI.<sup>500</sup>

7.568 The European Communities has submitted that the food labelling and misleading advertising directives and unfair competition laws of the EC member States also prevent confusing uses. We understand, and the European Communities does not deny, that this is only possible where the use is not in accordance with the GI registration. In any event, the scope of the directives is narrower than

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<sup>497</sup> United States' comment on EC response to Panel question No. 142 and Exhibits US-99 and US-100; European Communities' second oral statement, para. 177.

<sup>498</sup> United States' comment on EC response to Panel question No. 142 and Exhibits US-100 and US-101; European Communities' second oral statement, para. 178.

<sup>499</sup> See European Communities' response to Panel question No. 142(c) and contrast the United States' comment on that response and Exhibit US-101.

<sup>500</sup> The United States submitted copies of the packaging of cheeses bearing the GIs "Esrom", "Bitto", "Bra" and "Tomme de Savoie" in Exhibit US-52. The European Communities submitted the approved specifications for these GIs in Exhibits EC-99 through EC-102. See the European Communities' response to Panel question No. 140 and the United States' comment on that response.



that of the GI Regulation and the standards which they apply are different from the right of a trademark owner to prevent use which would result in a likelihood of confusion, for the following reasons:

- (a) the food labelling directive only applies to the labelling of foodstuffs to be delivered as such to the ultimate consumer and certain aspects relating to the presentation and advertising thereof. It provides that "labelling and methods used must not be such as could mislead the purchaser to a material degree, particularly ... as to the characteristics of the foodstuff and, in particular, as to its nature, identity, properties, composition, quantity, durability, origin or provenance, method of manufacture or production"<sup>501</sup>; and
- (b) the misleading advertising directive applies to "any advertising which in any way, including presentation, deceives or is likely to deceive the persons to whom it is addressed or whom it reaches and which, by reason of its deceptive nature is likely to affect their economic behaviour or which, for those reasons, injures or is likely to injure a competitor".<sup>502</sup>

7.569 The unfair competition laws of the EC member States apply subject to the terms of registration under the Regulation, due to the primacy of Community law. It is not clear to what extent these laws apply in addition to the Regulation but, to the extent that they do, they use various standards, some of which require deception, which is narrower than confusion, and some of which appear only to apply the misleading standard which is embodied in the Regulation itself.<sup>503</sup>

7.570 The United States also refers to specific cases in which the Regulation has been applied in support of its claim, as set out in the following paragraphs.

7.571 Article 14(3) of the Regulation has only been applied once. This was the case of "Bayerisches Bier", which was registered as a protected geographical indication in 2001 subject to the proviso that the use of certain prior trademarks, for example, BAVARIA and HØKER BAJER, was permitted to continue under Article 14(2). The GI refers to a beer and the trademarks are registered in respect of beer. The GI and the trademarks are, respectively, the words "Bavaria" or "Bavarian Beer" rendered in the German, English and Danish languages. Upon its registration, the EC Council concluded that the GI would not mislead the public as to the identity of the product, which is the standard embodied in Article 14(3) of the Regulation.<sup>504</sup>

7.572 The United States alleges that the GI "Bayerisches Bier" could be used in a manner that would result in a likelihood of confusion with these prior trademarks.<sup>505</sup> In response to a direct question from the Panel, the European Communities did not deny this specific allegation. It only

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<sup>501</sup> Articles 1 and 2(1)(a)(i) of Directive 2000/13/EC of the European Parliament and of the Council on the approximation of the laws of the Member States relating to the labelling, presentation and advertising of foodstuffs, referred to in the European Communities' responses to Panel question No. 63, fn 38; United States' comments on EC response to Panel question No. 140, fn. 74, and reproduced in Exhibit EC-30.

<sup>502</sup> Article 2(2) of Council Directive 84/450/EEC relating to the approximation of the laws, regulations and administrative provisions of the Member States concerning misleading advertising, referred to in European Communities' responses to Panel question No. 63, fn 39, United States' comments on EC response to Panel question No. 140, fn. 74, and reproduced in Exhibit EC-31.

<sup>503</sup> See information supplied by the European Communities and some of its member States to the Council for TRIPS in the review under Article 24.2 of the TRIPS Agreement, document IP/C/W/117/Add.10, reproduced in Exhibit EC-29. The European Communities did not supply information on the unfair competition laws of its ten new member States.

<sup>504</sup> Council Regulation (EC) No. 1347/2001 reproduced in Exhibits US-41 and EC-9.

<sup>505</sup> See the United States' response to Panel question No. 137.

responded that "in principle" a name registered following the assessment required by Article 14(3) "should not give rise to confusion when used subsequently" and submitted that "in practice" this may happen only when the registered name is used together with other signs or as part of a combination of signs. This was a conspicuous choice of words because in the same response it commented in detail on two other specific cases which it considered irrelevant to the dispute.<sup>506</sup>

7.573 The United States also alleges that three Czech beer GIs, "Budejovické pivo", "Ceskobudejovické pivo" and "Budejovický mešt'anský var" could be used in a manner that would result in a likelihood of confusion with the prior trademarks BUDWEISER and BUD, registered in respect of beer.<sup>507</sup> The evidence shows that a court in a non-EC WTO Member found a reasonable probability that a substantial number of persons would be confused if the marks BUDEJOVICKY BUDVAR depicted in a special script, and BUDWEISER and BUD, were used together in relation to beer in a normal and fair manner and in the ordinary course of business, particularly the mark BUD.<sup>508</sup> However, courts in two other non-EC WTO Members found that the use of "Budějovický Budvar" on specific beer labels did not give rise to a likelihood of confusion with the trademarks BUDWEISER and BUD, registered in respect of beer.<sup>509</sup> In response to a direct question from the Panel, the European Communities did not deny that these GIs could be used in a manner that would result in a likelihood of confusion with these prior trademarks. Instead, it pointed to an endorsement on the three GI registrations that they apply "without prejudice to any beer trademark or other rights existing in the European Union on the date of accession".<sup>510</sup> This might imply that it accepts a likelihood of confusion, but considers that there are other means besides Article 14(3) to deal with that. It also argued that these GIs were outside the terms of reference but the United States expressly clarified that it referred to them only as evidence in support of its claim and did not challenge these individual registrations in this panel proceeding.<sup>511</sup>

7.574 There appears to be an inconsistency between the European Communities' position that Article 14(3) of the Regulation, in practice, prevents the registration of GIs, use of which would result in a likelihood of confusion with a prior trademark, and its decision to avoid contesting that there may be circumstances in which the four specific GIs referred to above could be used which would not result in a likelihood of confusion with these specific prior trademarks.

7.575 For the above reasons, the Panel considers that the European Communities has not rebutted the United States' prima facie case that Article 14(3) of the Regulation cannot prevent all situations

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<sup>506</sup> The European Communities submitted twice that the EC Council had concluded that the registration of this GI would not lead to a likelihood of confusion with these prior trademarks but this is different from the EC Council's conclusion as stated in the decision on registration. The European Communities later indicated in response to a question from the Panel that the EC Council's conclusion was that the signs were not sufficiently similar to mislead the public, which is closer to the wording of the conclusion as stated in the decision, but not necessarily a likelihood of confusion: see European Communities' first written submission, para. 288, fn. 140; rebuttal submission, para. 287; and responses to Panel questions Nos. 137 and 143 and compare Council Regulation (EC) No. 1347/2001 reproduced in Exhibits US-41 and EC-9 and the Commission Guide to the Regulation (August 2004 edition, p. 12) in Exhibit EC-64.

<sup>507</sup> The evidence indicates that these trademarks are registered in at least two EC member States and rights to them appear to have been acquired through use in another EC member State: see Exhibits US-53, Section 3.6; US-51, para. 26; and US-82.

<sup>508</sup> Judgement of the High Court of South Africa in *Budweiser Budvar National Corporation v Anheuser-Busch Corporation*, dated 3 December 2003, reproduced in Exhibit US-82.

<sup>509</sup> Judgement of the Federal Court of Australia in *Anheuser-Busch, Inc. v Budějovický Budvar, Národní Podnik*, [2002] FCA 390 (dated 5 April 2002); judgement of the Court of Appeal of New Zealand in *Anheuser Busch Incorporated v Budweiser Budvar National Corporation & Ors* [2002] NZCA 264 (dated 19 September 2002) reproduced in Exhibits EC-117 and EC-118, respectively.

<sup>510</sup> European Communities' rebuttal submission, paras. 286-293; response to Panel question No. 142.

<sup>511</sup> United States' response to Panel question No. 137 and European Communities' comment on that response. See the Panel's comments on individual registrations at para. 7.20.

from occurring in which a trademark would be subject to Article 14(2) and, hence, in which the Regulation would limit the rights of the owner of such a trademark.

7.576 The Panel will now proceed to examine whether the TRIPS Agreement requires Members to make available to trademark owners rights against the use of GIs.

(d) Relationship between protection of GIs and prior trademarks under the TRIPS Agreement

(i) *Main arguments of the parties*

7.577 The **United States** argues that the ordinary meaning of the terms used in Article 16.1 show that the rights to prevent certain uses are exclusive, are valid against all third parties and cover identical or similar signs, including GIs.<sup>512</sup>

7.578 The United States argues that the context shows that the TRIPS Agreement explicitly clarifies the relationship among individual rights in GIs and trademarks, where there is a need. For instance, Article 22.3 explicitly provides for the refusal or invalidation of trademark registrations that contain or consist of a GI, in certain circumstances. In contrast, Article 24.5 does not explicitly set out an exception to trademark rights but only creates an exception to GI protection.<sup>513</sup> Compromises between rights to exclude, including simultaneous uses of identical place names, are spelt out in the text. For instance, Article 23.3 provides for homonymous GIs for wines. There is no explicit provision for simultaneous use of a GI and a prior trademark where use of the GI would be inconsistent with the rights under Article 16.1.<sup>514</sup>

7.579 The United States submits that Article 24.5 is clearly titled as an exception to GI protection. It protects certain grandfathered trademarks but is not an exception to trademark protection.<sup>515</sup> It does not create any positive rights.<sup>516</sup> The phrase "validity of the registration of a trademark" must be read in connection with the legal authority accorded by trademark registration, which is the right provided under Article 16.1, in addition to rights under domestic law. Trademark registration is virtually meaningless without the associated rights under Article 16.1. The drafting history shows that the predecessor of Article 24.5 in the Brussels Draft set out a simple prohibition against invalidation of registration. This became a requirement that Members not even "prejudice" the validity of the registration which is a more stringent requirement.<sup>517</sup> The obligations not to prejudice the "right to use a trademark" would include an obligation with respect to both registered trademarks and trademarks to which rights are acquired through use. If the owner cannot exclude confusing uses of identical or similar signs, the owner's ability to use the trademark for its purpose is severely prejudiced. The corresponding provision in the Brussels Draft did not refer to the right to use.<sup>518</sup>

7.580 The United States emphasizes the exclusivity of the rights provided for in Article 16.1. Exclusivity has been recognized as the core of a trademark right by the European Court of Justice and the United States Supreme Court.<sup>519</sup> A trademark can only fulfil its role of identifying an undertaking or the quality of goods if it is exclusive.<sup>520</sup> This is confirmed by Article 15.1.<sup>521</sup>

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<sup>512</sup> United States' first written submission, paras. 137-140.

<sup>513</sup> United States' first written submission, paras. 141-142; first oral statement, para. 58.

<sup>514</sup> United States' first written submission, para. 143.

<sup>515</sup> United States' first oral statement, para. 59; second oral statement, para. 88.

<sup>516</sup> United States' response to Panel question No. 145.

<sup>517</sup> United States' first oral statement, para. 65; response to Panel question Nos. 76, 145 and 147.

<sup>518</sup> United States' response to Panel question No. 76.

<sup>519</sup> United States' first written submission, paras. 145-150.

<sup>520</sup> United States' first oral statement, para. 67.

<sup>521</sup> United States' rebuttal submission, para. 174; response to Panel question No. 76.

7.581 The United States argues that there is no conflict between Articles 16.1 and 22. It is possible to comply simultaneously with both.<sup>522</sup> A conflict may occur between right holders in an individual trademark and an individual GI, but this is not a conflict between obligations in the TRIPS Agreement.<sup>523</sup> If a trademark misleads consumers as to the origin of goods, its registration should be refused or invalidated.<sup>524</sup> Articles 16.1 and 22.3 can both be implemented in a way that gives each its full scope. They should be interpreted in a way that does not presume a conflict. If a trademark is misleading, its registration may be refused or invalidated. As long as the registration remains valid, it must provide the owner with the right to exclude others from confusing uses.<sup>525</sup>

7.582 The United States argues that the European Communities bears the burden of proof in relation to Article 24.5 because it asserts that provision as an affirmative defence to the claim under Article 16.1.<sup>526</sup>

7.583 The **European Communities** responds that this claim is unfounded.<sup>527</sup> The TRIPS Agreement recognizes trademarks and GIs as intellectual property rights on the same level, and confers no superiority to trademarks over GIs. The provisions of Section 3 of Part II on GI protection are not "exceptions" to the provision of Article 16.1 on trademark rights. The criteria for registrability of trademarks limit *a priori* the possibility of conflicts between GIs and trademarks but conflicts may arise. Article 16.1 does not address this issue. Rather, the boundary between GIs and trademarks is defined by Article 24.5 which provides for coexistence with earlier trademarks. Article 24.5 must be read with Article 22.3 and Article 23.2 which also provide protection to GIs vis-à-vis trademarks.<sup>528</sup> Section 2 of Part II cannot be applied without having regard to Section 3.<sup>529</sup>

7.584 The European Communities argues that Article 24.5 has two implications: (1) with respect to grandfathered trademarks (or applications): (a) Members are not allowed to prejudice the validity of the registration (or the eligibility of the application or the right to use the trademark), but (b) Members may prejudice other rights of the trademark owner, including in particular the right to prevent others from using the sign of which the trademark consists; and (2) with respect to other trademarks (or applications), Members may prejudice any right.<sup>530</sup>

7.585 The European Communities argues that the ordinary meaning of the word "prejudice" used in all three official versions includes the notion of "judge beforehand" but only the word in the English version includes the notion of "cause injury, damage or harm".<sup>531</sup> The phrase "validity of the registration" does not necessarily imply that the registration must confer exclusive rights vis-à-vis all third parties. The fact that the owner cannot prevent use of the same or a similar sign by the GI right holder does not mean that the registration is set aside. The phrase "the right to use a trademark" refers to the basic right of the trademark owner to use the trademark, whether it has been acquired through registration or use.<sup>532</sup> It is the right to use a sign, which is different from the right to prevent others from using the same or a similar sign. If that right were inherent in the term "validity of the registration", it would have been superfluous to refer to the "right to use a trademark" as well. If that right had been intended, the drafters would have referred to the "exclusive right to use a trademark". If that right were inherently exclusive, it would have been superfluous to provide in Article 16.1 that

<sup>522</sup> United States' response to Panel question No. 146.

<sup>523</sup> United States' second oral statement, para. 71.

<sup>524</sup> United States' response to Panel question No. 146.

<sup>525</sup> United States' response to Panel question No. 79.

<sup>526</sup> United States' response to Panel question No. 75(a); rebuttal submission, para. 173.

<sup>527</sup> European Communities' first written submission, para. 269-273.

<sup>528</sup> European Communities' first written submission, paras. 294-300.

<sup>529</sup> European Communities' rebuttal submission, paras. 306-307.

<sup>530</sup> European Communities' first written submission, para. 301.

<sup>531</sup> European Communities' comment on US response to Panel question No. 145.

<sup>532</sup> European Communities' first written submission, para. 305; response to Panel question No. 76.

the owners of trademarks shall have exclusive rights. The drafting history shows that the Brussels Draft referred to the continued use of a GI as a trademark, which envisaged coexistence, in a separate provision from the predecessor to Article 24.5. Its transfer to Article 24.5 in the final version did not alter its meaning or purpose.<sup>533</sup>

7.586 The European Communities argues that Article 24.5 is drafted in mandatory terms and imposes self-standing obligations which go beyond those in Section 2 of Part II. This may be illustrated by the case of a Member which provides for the refusal or invalidation of registration of a trademark in terms broader than those in Article 22.3, or which prohibits the use of any trademark acquired by use in terms broader than those in Article 22.2. Both would be consistent with Section 2 of Part II but Article 24.5 would prevent either applying to prior trademarks. This would be an obligation arising exclusively under Article 24.5.<sup>534</sup>

7.587 The European Communities argues that if Article 24.5 did not allow coexistence, the protection of GIs provided under Section 3 of Part II would become pointless whenever there is a grandfathered trademark. The phrase "measures adopted to implement this Section" assumes that Members will continue to protect GIs notwithstanding the existence of grandfathered trademarks. Coexistence may not be a perfect solution to resolve conflicts between different types of intellectual property rights but there is no such perfect solution.<sup>535</sup> It is not an unusual solution, since coexistence is envisaged in Articles 23.2 (with respect to a GI and a trademark that is not misleading), 23.3, 24.3 (where pre-existing protection provided for coexistence) 24.4 and 16.1 (vis-à-vis existing prior rights).<sup>536</sup> Article 24.5 embodies a compromise. The European Communities and other participants agreed to make it mandatory on the understanding that the trademark owners would have the right to use the trademark but not the right to exclude use by GI right holders.<sup>537</sup>

7.588 There is no "conflict" between Articles 16.1 and 22.3 but there is a potential "conflict" between Articles 16.1 and 22.2(a), and possibly 23.1. Article 22.2 confers on GI right holders the right to prevent certain uses of trademarks, which may conflict with the right of the trademark owner under Article 16.1 to prevent certain uses of signs. The simultaneous exercise of both rights would lead to a situation where neither the trademark owner nor the GI right holders could use the sign in question. Neither would be able to fulfil its purpose. This conflict is resolved by Articles 22.3, 23.2 and 24.5.<sup>538</sup>

7.589 The European Communities argues that only the object and purpose of the treaty as a whole is relevant to the general rule of treaty interpretation. To the extent that the exclusivity of a trademark is an object and purpose of the TRIPS Agreement, it submits that exclusivity is as essential to a GI or even more essential, because the choice of a GI is not arbitrary, unlike a trademark, and the establishment of a GI takes longer than a trademark.<sup>539</sup>

7.590 The European Communities argues that the complainant bears the burden of proof that a measure falls within the scope of the obligations provided in Article 16.1. Article 24.5 is not an exception but defines the boundary between the obligations in Article 16.1 and a Member's right to implement GI protection. It does not provide an exemption from an obligation but places a limit on the measures that Members must or may take when implementing GI protection under Section 3 of Part II. It confers a right to use a trademark, a right which owners of trademarks acquired through use

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<sup>533</sup> European Communities' response to Panel question No. 76; rebuttal submission, paras. 327-328.

<sup>534</sup> European Communities' response to Panel question No. 145.

<sup>535</sup> European Communities' first written submission, para. 307; response to Panel question No. 77.

<sup>536</sup> European Communities' first written submission, para. 308; response to Panel question No. 76.

<sup>537</sup> European Communities' response to Panel question No. 147.

<sup>538</sup> European Communities' rebuttal submission, paras. 308-310; response to Panel question No. 146.

<sup>539</sup> European Communities' response to Panel question No. 76.

do not have under Article 16.1 because rights the basis of use are optional under Article 16.1. It notes that the United States stated a claim under Article 24.5 in its request for establishment of a panel.<sup>540</sup>

(ii) *Main arguments of third parties*

7.591 **Argentina** argues that coexistence is inconsistent with Articles 16.1 and 22.3 of the TRIPS Agreement. Article 24.5 sets out a cut-off date different from the one in the Regulation and does not provide for the possibility of limiting the trademark owner's right as the Regulation does. Article 24.4 determines the boundaries for alternatives available to Members in the implementation of measures relating to GI protection and its link to trademarks.<sup>541</sup>

7.592 **Brazil** argues GIs which are identical to trademarks are likely to create confusion and, consequently, may affect the value of trademarks. Article 16.1 of the TRIPS Agreement provides for a right that covers the use of any sign, and not only that of a trademark, which might cause confusion. The possibility of coexistence between a trademark and a GI is only acceptable in terms of Articles 24.5 and 16.1, read in conjunction, which mean that the use of a GI and the need to protect it must not be at the expense of both trademark owners and consumers, which may undermine the value of a trademark contrary to the "exclusive rights" of a trademark owner under Article 16.1.<sup>542</sup>

7.593 **Colombia** argues that, under the TRIPS Agreement, no form of protection is superior to another. Therefore, the Regulation cannot deny the right of the trademark owner under Article 16.1 of the TRIPS Agreement. Such denial constitutes a clear violation of WTO obligations.<sup>543</sup>

7.594 **Mexico** argues that the exclusive right in Article 16.1 of the TRIPS Agreement is severely nullified by Article 14(2) of the Regulation as it permits coexistence between a prior registered trademark and a later GI. The European Communities' explanation that coexistence is not the perfect solution is an inadequate justification but a recognition of inconsistency. By ignoring the "first in time, first in right" rule, the Regulation not only contravenes Article 24.5 of the TRIPS Agreement but also a recognized general principle of law.<sup>544</sup>

7.595 **New Zealand** argues that Article 16.1 of the TRIPS Agreement provides for a right against "all third parties". Despite an appearance of conflict between the rights in Articles 16.1 and 22.2, each must be read to the fullest extent permissible without conflicting with the other. Article 24.5 is a provision that resolves conflict by compromising this exclusivity, but in all other cases, the rights provided for in Articles 16.1 and 22.2 must both be upheld. Article 14(2) of the Regulation excludes users of a registered GI from the scope of "all third parties" against whom a trademark owner should be able to exercise rights, and is inconsistent with Article 16.1.<sup>545</sup>

7.596 **Chinese Taipei** argues that Articles 16.1 and 22.2 of the TRIPS Agreement must be given their full scope in a manner that would not cause conflict. The Regulation creates precisely such a conflict, rendering Article 16.1 inutile, as the right of trademark owners under that article is negated by coexistence under Article 14(2) of the Regulation. The result is the creation of a hierarchy in which GIs have a superior status than trademarks, which is not contemplated by the TRIPS Agreement.<sup>546</sup>

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<sup>540</sup> European Communities' response to Panel question No. 75; rebuttal submission, paras. 312-315.

<sup>541</sup> Annex C, para. 5.

<sup>542</sup> Annex C, para. 30.

<sup>543</sup> Annex C, para. 102.

<sup>544</sup> Annex C, para. 114.

<sup>545</sup> Annex C, paras. 148-151.

<sup>546</sup> Annex C, para. 178.

(iii) *Consideration by the Panel*

7.597 The Panel will now proceed to examine whether the TRIPS Agreement requires Members to make available to trademark owners rights against the use of GIs. This involves two steps: first, we examine the right of trademark owners provided for in Article 16.1 of the TRIPS Agreement and then we continue by examining whether Article 24.5 provides authority to limit that right.

Article 16.1 of the TRIPS Agreement

7.598 Part II of the TRIPS Agreement contains minimum standards concerning the availability, scope and use of intellectual property rights. The first seven Sections of Part II contain standards relating to categories of intellectual property rights. Each Section sets out, as a minimum, the *subject matter* which is eligible for protection, the scope of the *rights conferred* by the relevant category of intellectual property and permitted *exceptions* to those rights.

7.599 Although each of the Sections in Part II provides for a different category of intellectual property, at times they refer to one another<sup>547</sup>, as certain subject matter may be eligible for protection by more than one category of intellectual property. This is particularly apparent in the case of trademarks and GIs, both of which are, in general terms, forms of distinctive signs. The potential for overlap is expressly confirmed by Articles 22.3 and 23.2, which provide for the refusal or invalidation of the registration of a trademark which contains or consists of a GI.<sup>548</sup>

7.600 Section 2 of Part II provides for the category of trademarks. Article 15.1 sets out the definition of the subject matter which is capable of constituting a trademark. These are signs that satisfy certain criteria. Article 16.1 sets out a right which must be conferred on the owner of a registered trademark, and which may also be acquired on the basis of use, as follows:

"1. The owner of a registered trademark shall have the exclusive right to prevent all third parties not having the owner's consent from using in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion. In case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed. The rights described above shall not prejudice any existing prior rights, nor shall they affect the possibility of Members making rights available on the basis of use."

7.601 The right which must be conferred on the owner of a registered trademark is set out in the first sentence of the text. There are certain limitations on that right which relate to use in the course of trade, the signs, the goods or services for which the signs are used and those with respect to which they are registered and the likelihood of confusion. The ordinary meaning of the text indicates that, basically, this right applies to use in the course of trade of identical or similar signs, on identical or similar goods, where such use would result in a likelihood of confusion. It does not specifically exclude use of signs protected as GIs.

7.602 The text of Article 16.1 stipulates that the right for which it provides is an "exclusive" right. This must signify more than the fact that it is a right to "exclude" others, since that notion is already captured in the use of the word "prevent". Rather, it indicates that this right belongs to the owner of the registered trademark alone, who may exercise it to prevent certain uses by "all third parties" not

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<sup>547</sup> For instance, Article 25.2 of the TRIPS Agreement refers to more than one category of intellectual property, as does Article 4 of the IPIC Treaty, as incorporated by Article 35 of the TRIPS Agreement.

<sup>548</sup> Articles 22.3 and 23.2, respectively.

having the owner's consent. The last sentence provides for an exception to that right, which is that it shall not prejudice any existing prior rights. Otherwise, the text of Article 16.1 is unqualified.

7.603 Other exceptions to the right under Article 16.1 are provided for in Article 17 and possibly elsewhere in the TRIPS Agreement. However, there is no implied limitation vis-à-vis GIs in the text of Article 16.1 on the exclusive right which Members must make available to the owner of a registered trademark. That right may be exercised against a third party not having the owner's consent on the same terms, whether or not the third party uses the sign in accordance with GI protection, subject to any applicable exception.

#### Article 24.5 of the TRIPS Agreement

7.604 The parties have referred to Article 24.5 of the TRIPS Agreement. This appears in Section 3 of Part II, which provides for the category of GIs.<sup>549</sup> Article 24.5 provides as follows:

"5. Where a trademark has been applied for or registered in good faith, or where rights to a trademark have been acquired through use in good faith either:

- (a) before the date of application of these provisions in that Member as defined in Part VI; or
- (b) before the geographical indication is protected in its country of origin;

measures adopted to implement this Section shall not prejudice eligibility for or the validity of the registration of a trademark, or the right to use a trademark, on the basis that such a trademark is identical with, or similar to, a geographical indication."

7.605 The Panel must interpret this provision, like all other provisions of the covered agreements relevant to this dispute, in accordance with the customary rules of interpretation of public international law, as required by Article 3.2 of the DSU. For present purposes, this means the general rule of treaty interpretation contained in Article 31 of the Vienna Convention on the Law of Treaties. This requires an interpretation in good faith in accordance with the ordinary meaning to be given to the terms in their context and in the light of the object and purpose of the agreement. Recourse may be had to supplementary means of interpretation in accordance with Article 32 of that Convention.<sup>550</sup>

7.606 Commencing with the terms of the provision, we observe that Article 24.5 consists of a single sentence, of which the subject is "measures adopted to implement this Section". Article 24.5 appears in Section 3 of Part II of the TRIPS Agreement. Therefore, the reference to "this Section" is a reference to Section 3.<sup>551</sup>

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<sup>549</sup> Section 3 of Part II consists of three articles: Articles 22, 23 and 24. Article 23 concerns only GIs for wines and spirits, which are not covered by the Regulation. Nevertheless, the meaning of that article is important in understanding Section 3 in general and Article 24 in particular. The Panel therefore refers to it in its examination, where that is helpful.

<sup>550</sup> See, for example, the Appellate Body report on *US – Gasoline*, DSR 1996:I, 3, at 16; Appellate Body report on *Japan – Alcoholic Beverages II*, DSR 1996:I, 97, at 104; and Appellate Body report on *India – Patents (US)*, paras. 45-46.

<sup>551</sup> The parties referred to the text above and below subparagraphs (a) and (b) as a *chapeau* and a *chaussette*. The Panel attaches no importance to the alleged sartorial format of the paragraph.



7.607 The principal verb in Article 24.5 is "shall not prejudice". There are various definitions of the verb "prejudice" used in the three authentic language versions of the TRIPS Agreement.<sup>552</sup> The ordinary meaning of the verb "prejudice" in English can be defined as "affect adversely or unfavourably; injure or impair the validity of (a right, claim, etc.)". The latter part of this definition appears particularly apposite in this context since it refers to a right or claim, and the objects of the verb in Article 24.5 are legal rights. However, the European Communities emphasizes that the verbs used in the French and Spanish versions, *préjuger* and *prejudgar* respectively, correspond to the modern English verb "prejudge". The Panel notes that this is an archaic sense of the English verb "prejudice" now analogous to its use in the phrase "without prejudice". Other usages of the English verb "prejudice" in the TRIPS Agreement outside Article 24 have been rendered differently in the French and Spanish versions, which are equally authentic<sup>553</sup>, to capture the sense of adverse effect or injury, so that that sense should not be read into Article 24.5. Nevertheless, the essence of all these definitions is that the provision does not affect certain other rights. The Panel's task in this dispute is to determine the applicability of Article 24.5. For that purpose, it suffices to note that the verb "shall not prejudice" denotes that the measures that are the subject of that provision shall not affect certain other rights.

7.608 The United States argues that the word "prejudice" connotes additional protection for trademark rights under Article 24.5. However, the Panel notes that the word "prejudice" is relatively common in all three versions of the TRIPS Agreement and the phrase "shall not prejudice" or "shall in no way prejudice" occurs three other times in the English version, including once in another exception in Article 24, and once in relation to prior rights in Article 16.1 itself.<sup>554</sup> Read in context, "prejudice" simply appears to be a word which the drafters used to indicate that a particular measure shall not affect certain other rights, including prior rights.

7.609 The objects of the principal verb in Article 24.5 are "the eligibility for or the validity of the registration of a trademark" and "the right to use a trademark". The context indicates the relevance of these rights in Article 24.5. The choice of words "the eligibility for or the validity of the registration of a trademark" reflects the fact that these are the aspects of trademark protection which might otherwise be prejudiced by the obligations to "refuse or invalidate the registration of a trademark" and that "registration of a trademark ... shall be refused or invalidated" in Articles 22.3 and 23.2. In the same way, the choice of the words "the right to use a trademark" reflects the fact that this is the aspect of trademark protection which would otherwise be prejudiced by the obligations to provide the legal means to prevent certain uses in Articles 22.2 and 23.1.<sup>555</sup>

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<sup>552</sup> *The New Shorter Oxford English Dictionary* (1993); *Le Nouveau Petit Robert: Dictionnaire de la langue française* (June 2000) and *Diccionario de la Lengua Española*, 21<sup>st</sup> edition, (1992).

<sup>553</sup> See the final clause of the WTO Agreement.

<sup>554</sup> The phrase "shall in no way prejudice" appears in all three versions in Article 24.8, and "shall not prejudice" appears in Articles 16.1 and 53.2 in the English version. The phrase "without prejudice" appears in Articles 10.2, 40.3, 50.6, 57 and 59, and the word "prejudice" appears in the exception clauses in Articles 13, 26.2 and 30 (and Article 27.2 in the English version), and also in Article 63.4.

<sup>555</sup> The order of these two exceptions in Article 24.5 reverses the order of the types of protection in relation to *uses* and in relation to *registration of a trademark* in Article 22.2 and 22.3 and in Article 23.1 and 23.2. However, it can be observed that the exceptions followed the same order as the corresponding rights in paragraphs 1 and 2 of the GI exceptions provision in the Brussels Draft, which were the predecessors of Article 24.4 and 24.5 in the final version. Draft paragraph 1 referred to a GI that had been "used", "including use as a trademark", and draft paragraph 2 only referred to "action to refuse or invalidate registration of a trademark": see document MTN.TNC/W/35/Rev.1 dated 3 December 1990 entitled "Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations – Revision", the so-called "Brussels Draft". The phrase "including use as a trademark" was later deleted from paragraph 1, and prior trademark issues, including the right to use a trademark, were dealt with in Article 24.5 in the final version, in that order.

7.610 The European Communities asserts that the words "the right to use a trademark" provide for an additional positive right to use a trademark. However, in the Panel's view, the verb "shall not prejudice" is not capable of supporting this interpretation. It does not provide for the conferral of new rights on trademark owners or GI holders, but provides that the specifically mentioned rights shall not be affected by the measures that are the subject of the provision. If the drafters had intended to grant a positive right, they would have used positive language. Indeed, Article 14(2) of the Regulation (which was adopted prior to the end of the TRIPS negotiations) expressly provides that "a trademark ... may continue to be used" under certain conditions. In contrast, there is no language in Article 24.5 of the TRIPS Agreement which would provide for the conferral of a right to use a trademark. Instead, it is a saving provision which ensures that "the right to use a trademark" is not prejudiced, or affected, by measures adopted to implement Section 3 of Part II. Irrespective of how the right to use a trademark arises, there is no obligation under Article 24.5 to confer it.<sup>556</sup>

7.611 Even if the TRIPS Agreement does not expressly provide for a "right to use a trademark" elsewhere, this does not mean that a provision that measures "shall not prejudice" that right provides for it instead. The right to use a trademark is a right that Members may provide under national law.<sup>557</sup> This is the right saved by Article 24.5 where it provides that certain measures "shall not prejudice ... the right to use a trademark".<sup>558</sup>

7.612 The context in other paragraphs of Article 24 confirms the Panel's interpretation of "the eligibility for or the validity of the registration of a trademark" and "the right to use a trademark", as used in paragraph 5. Other exceptions in that article also refer to the implications of these two types of protection. Paragraph 4 refers to "continued and similar *use* of a particular [GI] ... identifying wines and spirits"; paragraph 7 refers to "any request made under this Section in connection with the *use* or *registration of a trademark*"; and paragraph 8 refers to "the right of any person to *use*, in the course of trade, that person's name".

7.613 There is no reason to limit the "right to use a trademark" to trademarks acquired through use due to the optical symmetry between, on the one hand, the passive subjects of the first relative clause: "a trademark applied for ... in good faith", "a trademark ... registered in good faith" and "rights to a trademark ... acquired through use in good faith" and, on the other hand, the active objects of the principal verb: "eligibility for ... the registration of a trademark", "the validity of the registration of a

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<sup>556</sup> The European Communities raises the issue of a Member that provides additional GI protection beyond that which is required by Article 22, in support of its view that Article 24.5 imposes self-standing obligations. It argues that in this situation Article 24.5, not Article 22 nor Section 2, would prohibit that Member from invalidating or denying protection to prior trademarks inconsistent with that additional protection. In the Panel's view, this overlooks the subject of Article 24.5 which is "measures adopted to implement ... Section [3]". To the extent that measures implement GI protection beyond that which is required by Article 22 for products other than wines and spirits they are, by definition, not measures adopted to implement Section 3 and Article 24.5 is irrelevant to them. It has not been argued by any party that the Regulation is not such a measure. See European Communities' response to Panel question No. 145 and United States' comment on that response.

<sup>557</sup> This is confirmed in WIPO publications, including *Introduction to Trademark Law & Practice, The Basic Concepts, A WIPO Training Manual* (1993), pp. 51-52, and *WIPO Intellectual Property Handbook: Policy, Law and Use*, (June 2001) at p. 82, cited by the European Communities in its rebuttal submission, para. 324 and its response to Panel question No. 76. See, for example, Australia's Trade Marks Act 1995, Section 20(1)(a), reproduced in Exhibit EC-58.

<sup>558</sup> Article 16.1 of the TRIPS Agreement only provides for a negative right to prevent all third parties from using signs in certain circumstances. Article 15.3 permits Members to make registrability depend on use and Article 19.1 permits Members to require use in order to maintain a registration, which might imply a right to use the trademark, but any such right is subject to the general law. Article 20 does not preclude a requirement prescribing the use of a trademark in a certain way.

trademark" and "the right to use a trademark". The operative parallel is between the rights which shall not be prejudiced and the types of GI protection which would otherwise prejudice them.

7.614 Therefore, according to their ordinary meaning read in context, the terms "shall not prejudice", "the eligibility for or the validity of the registration of a trademark" and "the right to use a trademark", as used in paragraph 5 of Article 24, indicate the creation of exceptions to the obligations to provide two types of GI protection in Section 3. Both these types of protection could otherwise affect the rights identified in paragraph 5. Indeed, the refusal or invalidation of the registration of a trademark has no other function but to extinguish the eligibility for or the validity of the registration of a trademark. Paragraph 5 ensures that each of these types of protection shall not affect those rights.

7.615 Accordingly, the Panel considers that Article 24.5 creates an exception to GI protection - as reflected in the title of Article 24.

7.616 Both parties submit that Article 24.5 implies certain things. The United States argues that the term "validity of the registration" impliedly refers to all the rights which flow from registration, including the right to prevent uses that would result in a likelihood of confusion. In contrast, the European Communities argues that the use of the more specific language in Article 24.5 in fact implies a limitation on the trademark owner's right to exclude use.<sup>559</sup>

7.617 As to the United States' argument, the Panel notes the contrast between the use of the specific terms "eligibility for or the validity of the registration" in Article 24.5, rather than simply "existing prior rights", which is the language used in the last sentence of Article 16.1. The use of language such as "existing prior rights" would have clearly preserved the right to prevent certain uses without any need for implication. The more specific language used in Article 24.5 does not, which suggests that Article 24.5 does not impliedly preserve that right. However, this does not mean that Article 24.5 authorizes Members to prejudice that right. Members may prejudice that right if there is another provision that obliges or permits them to do so.

7.618 As to the European Communities' argument, the Panel considers that it is difficult to sustain an argument that a limitation which is allegedly implied can prevail over an obligation in a WTO covered agreement which is express. It is evidently the position under the European Communities' domestic law that an implied positive right to use a registered GI prevails over the negative right of a prior trademark holder to prevent confusing uses.<sup>560</sup> However, such an interpretation of the TRIPS Agreement is not possible without a suitable basis in the treaty text. The text of Article 24.5 expressly preserves the right to use a trademark - which is *not* expressly provided for in the TRIPS Agreement - and is silent as to any limitation on the trademark owner's exclusive right to prevent confusing uses of signs - which *is* expressly provided for in the TRIPS Agreement - when the sign is used as a GI.

7.619 Accordingly, the Panel's preliminary conclusion is that it is inappropriate to imply in Article 24.5 *either* the right to prevent confusing uses *or* a limitation on the right to prevent confusing uses.

7.620 The ordinary meaning of the terms in their context must also be interpreted in light of the object and purpose of the agreement. The object and purpose of the TRIPS Agreement, as indicated by Articles 9 through 62 and 70 and reflected in the preamble, includes the provision of adequate standards and principles concerning the availability, scope, use and enforcement of trade-related

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<sup>559</sup> European Communities' first written submission, para. 301; response to Panel question No. 147.

<sup>560</sup> That position may be evidenced by, among other things, the express provision in Article 159 of the Community Trademark Regulation that it shall not affect the GI Regulation and in particular Article 14 thereof. There is no such provision in Section 2 of Part II of the TRIPS Agreement on trademarks that refers to Section 3 of Part II on GIs.

intellectual property rights. This confirms that a limitation on the standards for trademark or GI protection should not be implied unless it is supported by the text.

7.621 The standards of protection in Part II of the Agreement and, hence, the procedures for their enforcement under Part III, could be undermined by systematic conflicts between the standards for different categories of intellectual property available to different parties but applied to the same subject matter. This is particularly apparent in the case of trademarks and GIs due to the similarity of the subject matter eligible for protection by those two categories of intellectual property and the fact that the rights in respect of uses are indifferent as to whether the infringing subject matter is protected by another category of intellectual property. The subject matter eligible for protection overlaps whilst the rights conferred by each category intersect.

7.622 The European Communities submits that this is a conflict resolved by Article 22.3 (and Article 23.2) by effectively giving priority to the GI.<sup>561</sup> The Panel agrees that Articles 22.3 and 23.2 can resolve conflicts with *later* trademarks but they do not resolve conflicts with prior trademarks that meet the conditions set out in Article 24.5.

7.623 Both the United States and the European Communities agree that the simultaneous exercise of two negative rights to prevent uses provided for in Articles 16.1 and 22.2 (and 23.1) can lead to a conflict between different private parties who wish to use an individual sign as a trademark and as a GI. The European Communities sees this potential for conflict as a matter which should be avoided in the interpretation of the TRIPS Agreement. The United States distinguishes this from a conflict between Members' obligations under the Agreement, and argues that the need for a harmonious interpretation of the Agreement does not require the treaty interpreter to resolve potential conflicts between private parties.

7.624 The Panel notes that the parties do not dispute that *Members* may comply simultaneously with both obligations in the TRIPS Agreement. They do not allege that there are conflicting provisions in the treaty itself.<sup>562</sup> The general rule of treaty interpretation requires us to interpret the treaty in accordance with the ordinary meaning to be given to its terms in their context in the light of its object and purpose. The Panel has had recourse to supplementary means of interpretation, in particular a draft text, in order to confirm the meaning resulting from the application of the general rule of treaty interpretation, which has not left the meaning ambiguous or obscure or led to a result which is manifestly absurd or unreasonable. We would not adopt an approach in treaty interpretation that produced a result that might, on one view, further the object and purpose of the Agreement, but which is not supported by the ordinary meaning to be given to its terms in their context. The following statement by the Appellate Body in *EC – Hormones* appears apposite:

"The fundamental rule of treaty interpretation requires a treaty interpreter to read and interpret the words actually used by the agreement under examination, not words the interpreter may feel should have been used."<sup>563</sup>

7.625 Therefore, the Panel concludes that, under Article 16.1 of the TRIPS Agreement, Members are required to make available to trademark owners a right against certain uses, including uses as a GI. The Regulation limits the availability of that right for the owners of trademarks which are subject to Article 14(2). Article 24.5 of the TRIPS Agreement is inapplicable and does not provide authority to limit that right.

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<sup>561</sup> European Communities' response to Panel question No. 146.

<sup>562</sup> In this respect, the Panel recalls the findings in the Panel reports on *Indonesia – Autos* at para 14.28; *Turkey – Textiles* at paras. 9.92-9.95; and *EC – Bananas III* at paras. 7.151-7.163.

<sup>563</sup> Appellate Body report on *EC – Hormones*, para. 181.

7.626 The European Communities raises two other defences that, in this respect, the Regulation is justified by exceptions found in Articles 24.3 and 17 of the TRIPS Agreement. The Panel will consider each of these in turn.

(e) Article 24.3 of the TRIPS Agreement

(i) *Main arguments of the parties*

7.627 The **United States** argues that Article 24.3 of the TRIPS Agreement is an exception with respect to the implementation of the GI Section of the Agreement and does not impose any exception to the obligation to provide trademark rights under Article 16.1. The EC's interpretation would create a major and permanent exception to the trademark Section of the TRIPS Agreement which would require a Member to apply all aspects of its pre-TRIPS GI regime to all GIs – including those registered after 1 January 1996 – so that the Member would never fully implement the rights granted to trademark owners by Article 16.1.<sup>564</sup> The "protection" of GIs, within the meaning of Article 24.3, could just as easily mean protection as it relates to individual GIs as it could mean the general scope or level of protection overall.<sup>565</sup>

7.628 The **European Communities** argues that it is required to maintain coexistence of GIs and earlier trademarks by Article 24.3 of the TRIPS Agreement, which is a standstill obligation that prohibits Members from diminishing the level of GI protection that existed at the time of entry into force of the WTO Agreement. The Regulation provided for coexistence in Article 14(2) immediately prior to the entry into force of the WTO Agreement. If the European Communities allowed the owners of prior registered trademarks to prevent the use of later GIs, this would diminish the protection of GIs contrary to Article 24.3.<sup>566</sup> The standstill obligation applies to the general level of protection of GIs available in a Member on 1 January 1995 rather than the protection of individual GIs registered or applied for on that date. The relevant verb, "existed", appears in the singular in the French and Spanish versions, which indicates that it refers to the whole phrase "protection of geographical indications" rather than the plural noun "geographical indications". It is an additional obligation, not an exception. It refers to GI protection, which expressly includes protection vis-à-vis trademark rights in Articles 22.3, 23.2 and 24.5. Those provisions limit the trademark obligations under Article 16.1, as does Article 24.3.<sup>567</sup> Article 24.3 applies "[i]n implementing this Section". The Section includes Article 24.5, which prevents Members from invalidating and prohibiting the use of grandfathered trademarks.<sup>568</sup>

(ii) *Main arguments of third parties*

7.629 **New Zealand** informs the Panel that no GIs were registered under the Regulation prior to the entry into force of the TRIPS Agreement. In any case, Article 24.3 is qualified by the phrase "[i]n implementing this Section" and does not justify a breach of the Section on trademarks.<sup>569</sup>

(iii) *Consideration by the Panel*

7.630 The Panel now considers the European Communities' argument that it is required to maintain coexistence of GIs and earlier trademarks by Article 24.3 of the TRIPS Agreement. That provision reads as follows:

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<sup>564</sup> United States' first oral statement, paras. 70-73.

<sup>565</sup> United States' rebuttal submission, para. 197.

<sup>566</sup> European Communities' first written submission, paras. 272, 312-314.

<sup>567</sup> European Communities' response to Panel question No. 74.

<sup>568</sup> European Communities' response to Panel question No. 152.

<sup>569</sup> Annex C, para. 158.

"3. In implementing this Section, a Member shall not diminish the protection of geographical indications that existed in that Member immediately prior to the date of entry into force of the WTO Agreement."

7.631 Article 24.3 appears in Section 3 of Part II of the TRIPS Agreement. The reference to "this Section" is therefore a reference to Section 3, which sets out standards for the protection of GIs. The "date of entry into force of the WTO Agreement" was 1 January 1995.

7.632 The scope of Article 24.3 is limited by the introductory phrase "[i]n implementing this Section". It does not apply to measures adopted to implement provisions outside Section 3. Trademark owners' rights, which Members must make available in the implementation of Article 16.1, are found in Section 2. Therefore, Article 24.3 is inapplicable.

7.633 Turning to the ordinary meaning of the terms used in the rest of the provision, the principal verb is "shall not diminish". This indicates that this is a standstill provision, and that it is mandatory. The parties do not agree on the meaning of the object of that verb, which is the phrase "the protection of geographical indications" as qualified by the final relative clause. In the English version of the text, that phrase could refer either to "the protection of GIs" as a whole, or to "the protection" of individual GIs. In the French and Spanish versions, which are equally authentic<sup>570</sup>, the verb "existed" in the relative clause is in the singular, which indicates that the "protection of geographical indications" must be interpreted as a whole. It is unclear in all three versions whether this refers to the legal framework or system of protection in a Member that existed immediately prior to 1 January 1995, or to the state of GI protection in a Member that existed at that time in terms of the individual rights which were protected.

7.634 If Article 24.3 referred to a system of protection in a Member, this would have two important consequences. First, as a mandatory provision, it would prevent a Member which had a system that granted a higher level of protection than that provided for in the TRIPS Agreement from implementing the same minimum standards of protection as other Members, even if it wished to do so. For example, in the European Communities, Article 14 of the Regulation entered into force in 1993 but was amended in April 2003 in respect of trademark rights acquired through use.<sup>571</sup> To the extent that those amendments diminished the general level of protection of GIs under the European Communities' system, they would be inconsistent with Article 24.3 on its own view.

7.635 Second, a standstill provision for a system of protection would exclude from the scope of Section 3 not only individual rights already in force under that system as at the date of entry into force of the WTO Agreement, but also rights subsequently granted under that system in perpetuity. This would be a sweeping exclusion which would grow, rather than diminish, in importance, as an increasing number of GIs were protected under the prior legislation. The Panel is reluctant to find such an exclusion in the absence of any clear language to that effect, and none has been drawn to its attention. In this respect, it can be noted that the TRIPS Agreement *does* contain an exclusion for a type of system (in respect of phonograms) in Article 14.4 but it is optional, it clearly refers to a "system" and it is subject to a proviso against abuse. Article 24.3 contains none of these features.

7.636 For these reasons, the Panel interprets the phrase "the protection of geographical indications that existed in that Member immediately prior to the date of entry into force of the WTO Agreement" to mean the state of protection of GIs immediately prior to 1 January 1995, in terms of the individual GIs which were protected at that point in time. In the present dispute, the parties agree that no GIs were registered under the Regulation prior to 1 January 1995. Therefore, Article 24.3 is inapplicable.

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<sup>570</sup> See the final clause of the WTO Agreement.

<sup>571</sup> See Council Regulation (EC) No. 692/2003, Article 13 and paragraph 11 of the recitals, set out in Exhibit COMP-1h.

7.637 For all the reasons set out above, the Panel concludes that Article 24.3 is inapplicable.

(f) Article 17 of the TRIPS Agreement

(i) *Main arguments of the parties*

7.638 The **United States** argues that the European Communities has not shown that Article 14(2) constitutes a limited exception within the meaning of Article 17 of the TRIPS Agreement. The United States interprets a "limited exception" to connote an exception which makes only a small diminution of the rights in question. The blanket inability of trademark owners to prevent confusing uses is not "limited" because it does not involve a small diminution of rights and there is no limit on the number of potential users of a registered GI. United States trademark law, to which the European Communities referred, allows fair use of descriptive terms *otherwise than as a mark*, i.e. in a non-distinctive sense, and calls for a case-by-case analysis. The EC GI Regulation does neither. Even if geographical names are descriptive terms, the Regulation allows registration of some non-geographical names. Even if Article 14(3) of the Regulation prevents registration of well-known marks, these are a narrow subset of all trademarks and, in any case, the analysis must be conducted for each trademark individually. Article 17 presupposes a certain degree of likelihood of confusion for a particular trademark but not the unlimited degree permitted by the Regulation.<sup>572</sup>

7.639 The United States argues that the "legitimate interests of the owner of the trademark" could be the owner's interest in the economic value of the rights the trademark confers. The Regulation places no limits on the manner in which a GI can be used which could, in most cases, destroy the economic value of the trademark. It is not tailored in any way to the legitimate interests of a particular trademark owner. The largest set of "third parties" are consumers, and also trademark licensees. It should be possible to inform consumers about the origin of a product and its characteristics through the use of descriptive terms in a non-trademark sense without confusing the consumer about the source of the goods. Allowing confusing use of a GI harms the interests of consumers. Labelling, misleading advertising and unfair competition laws are irrelevant because they simply add prohibitions and do not affect whether a particular use is a trademark infringement.<sup>573</sup>

7.640 The **European Communities** argues that, in the alternative, the coexistence of GIs and earlier trademarks would be justified under Article 17 of the TRIPS Agreement. It considers that Article 17 is an exception to the obligations in Article 16 and that previous panels have taken the view that the burden of invoking similar exceptions was on the respondent. It accepts that it bears the burden of proof. Article 14(2) of the Regulation is a "limited exception" because it only allows use by those producers who are established in the geographical area on products that comply with the specification. The trademark owner retains the exclusive right to prevent use by any other persons. Coexistence falls within the example of "fair use of descriptive terms" because GIs are descriptive terms, even where they consist of a non-geographical name, and their use to indicate the true origin of goods and the characteristic associated with that origin is "fair".<sup>574</sup>

7.641 The European Communities argues that the legitimate interests of the trademark owner and of third parties are taken into account because Article 14(3) of the Regulation would prevent the most significant cases of confusion, and legislation on labelling, misleading advertising and unfair competition still applies. The legitimate interests of the trademark owner are less than full enjoyment

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<sup>572</sup> United States' rebuttal submission, paras. 198-201, 205-207; second oral statement, paras. 100 and 102; responses to Panel question Nos. 154 and 155; comments on EC responses to Panel question Nos. 153 and 156.

<sup>573</sup> United States' rebuttal submission, paras. 202-205 and 209-210.

<sup>574</sup> European Communities' first written submission, paras. 315-318; rebuttal submission, paras. 333-338, 348-350; responses to Panel question No. 75(b).

of all exclusive rights under Article 16.1 of the TRIPS Agreement. The legitimate interests of third parties include the interests of producers who use GIs as well as consumers. GIs inform consumers about the origin of products and take account of the interests of third parties in that way. Article 17 of the TRIPS Agreement does not require the avoidance of all likelihood of confusion, otherwise it would be superfluous, nor does it require confusion to be confined to that which is strictly necessary, which would render the example of "fair use of descriptive term" irrelevant. Article 17 calls for a balancing of different interests which, in the present dispute, requires that account should be taken of the fact that trademarks are arbitrary and much easier to create than GIs and GIs are collective rights and also serve a public interest of informing consumers.<sup>575</sup>

(ii) *Main arguments of third parties*

7.642 **Argentina, Brazil, India, Mexico and New Zealand** indicated, in response to a question from the Panel, that they provide certain exceptions to exclusive trademark rights. Examples included honest concurrent use, prior use in good faith, comparative advertising, uses for spare parts and certain non-commercial fair uses.<sup>576</sup>

7.643 **New Zealand** also argues that coexistence is not a "limited" exception within the meaning of Article 17 of the TRIPS Agreement because it excludes an entire group of producers from the trademark owner's right to prevent confusing uses, which is a major exception.<sup>577</sup>

(iii) *Consideration by the Panel*

Introduction

7.644 The Panel will now consider the European Communities' argument that its particular regime of coexistence between GIs and prior trademarks is justified under Article 17 of the TRIPS Agreement. The European Communities defends its regime of coexistence "as such", not as applied. Therefore, our consideration of this defence focuses almost entirely on the terms of the measure and its potential effects, rather than any actual effects. Nevertheless, we will refer to the few examples of how the GI Regulation has been applied with respect to prior trademarks, where that is instructive.

7.645 The United States submits that the European Communities, as the party asserting that its measure is covered by the exception in Article 17, bears the burden of proving that assertion. The European Communities does not contest this position.<sup>578</sup> Therefore, the Panel will follow this approach in the present dispute.

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<sup>575</sup> European Communities' first written submission, para. 319; rebuttal submission, paras. 339-347; responses to Panel question Nos. 153 and 154; comment on US response to Panel question No. 154.

<sup>576</sup> See Annex C.

<sup>577</sup> Annex C, para. 159.

<sup>578</sup> All parties note that it was the approach of two previous panels to exceptions provisions in Part II of the TRIPS Agreement: see Panel reports on *US – Section 110(5) Copyright Act*, para. 6.239; and *Canada – Pharmaceutical Patents*, para. 7.16. This approach was not contested in those disputes and was adopted without discussion, although the Panel in *Canada – Pharmaceutical Patents* observed that a respondent cannot demonstrate that no legitimate interest of a patent owner has been prejudiced until it knows what claims of legitimate interests can be made by the complainant. Similarly, the weight of legitimate third party interests cannot be fully appraised until the legitimacy of the patent owner's legitimate interests, if any, are defined: see para. 7.60 of its report. These practical problems also apply in disputes under Article 17. In this regard, the Panel recalls the distinction between the rights and obligations owed by WTO Members to one another under the covered agreements, and the rights conferred by Members on nationals by individual intellectual property rights under the TRIPS Agreement. The burden of proof in WTO dispute settlement between Members relates



7.646 Article 17 provides as follows:

*"Exceptions*

Members may provide limited exceptions to the rights conferred by a trademark, such as fair use of descriptive terms, provided that such exceptions take account of the legitimate interests of the owner of the trademark and of third parties."

7.647 Article 17 expressly permits Members to provide limited exceptions to the rights conferred by a trademark, which include the right provided for in Article 16.1 of the TRIPS Agreement. The Panel has already found that the Regulation limits the availability of the right provided for in Article 16.1. Therefore, to the extent that it satisfies the conditions in Article 17, this limitation will be permitted under the TRIPS Agreement.

7.648 Article 17 permits "limited exceptions". It provides an example of a limited exception, and is subject to a proviso that "such exceptions take account of the legitimate interests of the owner of the trademark and of third parties". The ordinary meaning of the terms indicates that an exception must not only be "limited" but must also comply with the proviso in order to satisfy Article 17. The example of "fair use of descriptive terms" is illustrative only, but it can provide interpretative guidance because, *a priori*, it falls within the meaning of a "limited" exception and must be capable of satisfying the proviso in some circumstances. Any interpretation of the term "limited" or of the proviso which excluded the example would be manifestly incorrect.

7.649 The structure of Article 17 differs from that of other exceptions provisions to which the parties refer. It can be noted that Articles 13, 26.2 and 30 of the TRIPS Agreement, as well as Article 9(2) of the Berne Convention (1971) as incorporated by Article 9.1 of the TRIPS Agreement, also permit exceptions to intellectual property rights and all contain, to varying degrees, similar language to Article 17. However, unlike these other provisions, Article 17 contains no reference to "conflict with a [or the] normal exploitation", no reference to "unreasonabl[e] prejudice" to the legitimate interests" of the right holder or owner, and it not only refers to the legitimate interests of third parties but treats them on par with those of the right holder. It is also the only one of these provisions which contains an example. Further, Article 17 permits exceptions to trademark rights, which differ from each of the intellectual property rights to which these other exceptions apply. Therefore, whilst it is instructive to refer to the interpretation by two previous panels of certain shared elements found in Articles 13 and 30, it is important to interpret Article 17 according to its own terms.

Limited exceptions

7.650 The first issue to decide is the meaning of the term "limited exceptions" as used in Article 17. The United States interprets this in terms of a small diminution of rights. The European Communities does not disagree with this approach. The Panel agrees with the views of the Panel in *Canada – Pharmaceutical Patents*, which interpreted the identical term in Article 30, that "[t]he word 'exception' by itself connotes a limited derogation, one that does not undercut the body of rules from which it is made".<sup>579</sup> The addition of the word "limited" emphasizes that the exception must be narrow and permit only a small diminution of rights. The limited exceptions apply "to the rights conferred by a trademark". They do not apply to the set of all trademarks or all trademark owners. Accordingly, the fact that it may affect only few trademarks or few trademark owners is irrelevant to the question whether an exception is limited. The issue is whether the exception to the *rights conferred by a trademark* is narrow.

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to the first set of rights and obligations and not to the fact that a provision creates exceptions to the rights to be conferred by Members on the nationals of other Members.

<sup>579</sup> Panel report on *Canada – Pharmaceutical Patents*, para. 7.30.

7.651 There is only one right conferred by a trademark at issue in this dispute, namely the exclusive right to prevent certain uses of a sign, provided for in Article 16.1. Therefore, it is necessary to examine the exception on an individual "per right" basis. This is a legal assessment of the extent to which the exception curtails that right. There is no indication in the text of Article 17 that this involves an economic assessment, although economic impact can be taken into account in the proviso. In this regard, we note the absence of any reference to a "normal exploitation" of the trademark in Article 17, and the absence of any reference in Section 2, to which Article 17 permits exceptions, to rights to exclude legitimate competition. Rather, they confer, *inter alia*, the right to prevent uses that would result in a likelihood of confusion, which can lead to the removal of products from sale where they are marketed using particular signs, but without otherwise restraining the manufacture, sale or importation of competing goods or services.

7.652 The right provided for in Article 16.1 contains several elements and an exception could, in principle, curtail the right in respect of any of them. We recall these elements in the text of that provision as follows:

"The owner of a registered trademark shall have the exclusive right to prevent *all third parties* not having the owner's consent from using in the course of trade *identical or similar signs for goods or services which are identical or similar* to those in respect of which the trademark is registered where such use would result in *a likelihood of confusion*." [emphasis added]

7.653 In principle, an exception could curtail the right of the owner in respect of the third parties concerned, or with respect to the identity or the similarity of the signs or the goods or services concerned or with respect to the degree of likelihood of confusion, or some combination of these. There may be other possibilities as well. The overriding requirement is that the exception must be "limited" and it must also satisfy the proviso, considered below. These elements provide a useful framework for an assessment of the extent to which an exception curtails the right provided for in Article 16.1.

7.654 The example in the text, "fair use of descriptive terms", provides guidance as to what is considered a "limited exception", although it is illustrative only. Fair use of descriptive terms is inherently limited in terms of the sign which may be used and the degree of likelihood of confusion which may result from its use, as a purely descriptive term on its own is not distinctive and is not protectable as a trademark. Fair use of descriptive terms is *not* limited in terms of the number of third parties who may benefit, nor in terms of the quantity of goods or services with respect to which they use the descriptive terms, although implicitly it only applies to those third parties who would use those terms in the course of trade and to those goods or services which those terms describe. The number of trademarks or trademark owners affected is irrelevant, although implicitly it would only affect those marks which can consist of, or include, signs that can be used in a descriptive manner. According to the text, this is a "limited" exception for the purposes of Article 17.

7.655 Turning to the Regulation, it curtails the trademark owner's right in respect of certain goods but not all goods identical or similar to those in respect of which the trademark is registered. It prevents the trademark owner from exercising the right to prevent confusing uses of a sign for the agricultural product or foodstuff produced in accordance with the product specification in the GI registration. We recall that, according to Article 2(2) of the Regulation, which is set out above at paragraph 7.187, those goods must all be produced, processed and/or prepared in the region, specific place or, in exceptional cases, country, the name of which is used to describe them. Goods that are not from that geographical area may not use the GI. Further, according to Article 4 of the Regulation, all products using a GI must comply with a product specification. Products that do not so comply may not use the GI even if they are from the geographical area. The trademark owner's right against all other goods is not curtailed. We note that there is no limit in terms of the quantity of goods which

may benefit from the exception, as long as they conform to the product specification. However, this cannot prevent the limitation on rights of owners of trademarks subject to Article 14(2) from constituting a limited exception for the purposes of Article 17, as fair use of descriptive terms implies no limit in terms of quantity either, and the text indicates that it is a limited exception for the purposes of Article 17. The quantity of goods which benefits from an exception may be related to the curtailment of the rights to prevent the acts of making, selling or importing a product, but these are not rights conferred by a trademark.

7.656 The Regulation curtails the trademark owner's right against certain third parties, but not "all third parties". It prevents the trademark owner from exercising the right to prevent confusing uses against persons using a registered GI on a good in accordance with its registration. This is a limitation on the third parties who may benefit from the exception. The trademark owner's right is not curtailed with respect to any other third parties.<sup>580</sup>

7.657 The Regulation curtails the trademark owner's right in respect of certain signs but not all signs identical or similar to the one protected as a trademark. It prevents the trademark owner from exercising its right to prevent use of an indication registered as a GI in accordance with its registration. We recall our finding in paragraph 7.518 that the GI registration does not confer a positive right to use any other signs or combination of signs nor to use the name in any linguistic versions not entered in the register. The trademark owner's right is not curtailed against any such uses. If the GI registration prevented the trademark owner from exercising its rights against these signs, combinations of signs or linguistic versions, which do not appear expressly in the GI registration, it would seriously expand the exception and undermine the limitations on its scope.

7.658 Under the Regulation, once a GI has been registered and a trademark is subject to the coexistence regime under Article 14(2), set out above at paragraph 7.520, the GI may, in principle, be used without regard to the likelihood of confusion that it may cause. However, the Regulation refers to the likelihood or risk of confusion, with a given mark, which would result from use as a GI of an identical or similar sign, in Articles 7(5)(b), 12b(3) and 12d(3), in relation to the decision on whether to register a GI where an objection is admissible. Article 7(4) and, hence, Article 12b(3), provide a ground for objection where registration would jeopardize the existence of a mark, and Article 14(3) provides a ground for refusal of registration which refers to the trademark's reputation and renown and the length of time it has been used. These factors are relevant to the likelihood of confusion which could result from subsequent use of the GI. We recall our finding in paragraph 7.521 that Article 14(2) is an exception to Article 13, which presupposes a consideration of the similarity of the signs and goods as well. They are essential to an analysis of a likelihood of confusion. Whilst Articles 7(4), 12b(3) and 14(3) do not specifically refer to the concept of likelihood of confusion between a GI and a trademark subject to the exception in Article 14(2), they, together with Articles 7(5)(b), 12b(3) and 12d(3) can ensure that, in cases where the likelihood of confusion is relatively high, the exception simply does not apply.

7.659 The United States submitted that Article 14(2) eliminates the trademark owner's right, granting the owner only the right to continue to use the trademark. However, the European Communities has emphasized that the trademark owner retains the right to prevent the use of a name registered as a GI by any person in relation to any goods which originate in a different geographical

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<sup>580</sup> The United States refers to a case of trademark infringement in which the German Federal Supreme Court held that the concurrent use by Fiat of the SL trademark owned by Mercedes-Benz could put at risk the very existence of that trademark. note that, in coming to its decision, the Court observed that "it could be expected that other vehicle manufacturers might soon follow the defendant's example." See United States' rebuttal submission, para. 173, fn. 167 and Exhibit US-67. The opportunity for all other potential competitors to use a trademark does not arise under the GI Regulation as it only permits use of a GI in accordance with its registration, including the product specifications.

area or which do not comply with the specifications<sup>581</sup>, and that the positive right to use the GI extends only to the linguistic versions that have been entered in the register and not to other names or signs which have not been registered<sup>582</sup>. Accordingly, on the basis of the terms of the GI Regulation and of the Community Trademark Regulation, and the explanation of them provided by the European Communities, the Panel finds that not only may the trademark continue to be used, but that the trademark owner's right to prevent confusing uses, is unaffected except with respect to the use of a GI as entered in the GI register in accordance with its registration. In view of these limitations, the scope of the exception in Article 14(2) falls far short of that which the United States initially claimed.<sup>583</sup>

7.660 Furthermore, the European Communities has explained that the use of a name registered as a GI is subject to the applicable provisions of the food labelling and misleading advertising directives so that the ways in which it may be used are not unlimited.<sup>584</sup>

7.661 For the above reasons, the Panel finds that the Regulation creates a "limited exception" within the meaning of Article 17 of the TRIPS Agreement.

#### The proviso to Article 17

7.662 Limited exceptions must satisfy the proviso that "such exceptions take account of the legitimate interests of the owner of the trademark and of third parties" in order to benefit from Article 17. We must first establish what are "legitimate interests". Read in context, the "legitimate interests" of the trademark owner are contrasted with the "rights conferred by a trademark", which also belong to the trademark owner. Given that Article 17 creates an exception to the rights conferred by a trademark, the "legitimate interests" of the trademark owner must be something different from full enjoyment of those legal rights. The "legitimate interests" of the trademark owner are also compared with those of "third parties", who have no rights conferred by the trademark. Therefore, the "legitimate interests", at least of third parties, are something different from simply the enjoyment of their legal rights. This is confirmed by the use of the verb "take account of", which is less than "protect".

7.663 We agree with the following view of the Panel in *Canada – Pharmaceutical Patents*, which interpreted the term "legitimate interests" of a patent owner and third parties in the context of Article 30 as follows:

"To make sense of the term 'legitimate interests' in this context, that term must be defined in the way that it is often used in legal discourse – as 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."<sup>585</sup>

In our view, this is also true of the term "legitimate interests" of a trademark owner and third parties in the context of Article 17.

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<sup>581</sup> European Communities' first written submission, para. 317; rebuttal submission, para. 336; responses to Panel question Nos. 76 and 153.

<sup>582</sup> European Communities' rebuttal submission, paras. 288, 293 and 301; responses to Panel question Nos. 63, 137 and 140; and comment on US response to Panel question No. 137.

<sup>583</sup> See United States' first oral statement, para. 75. The United States appears to acknowledge that the GI registration does not extinguish the trademark owner's rights against other third parties, although it alleges that use of the GI will affect the distinctiveness of the trademark: see United States' second oral statement, para. 101. The Panel considers that issue in relation to the proviso to Article 17.

<sup>584</sup> European Communities' first written submission, para. 319; response to Panel question No. 153.

<sup>585</sup> Panel report on *Canada – Pharmaceutical Patents*, para. 7.69.

7.664 The legitimacy of some interest of the trademark owner is assumed because the owner of the trademark is specifically identified in Article 17. The TRIPS Agreement itself sets out a statement of what all WTO Members consider adequate standards and principles concerning trademark protection. Although it sets out standards for legal rights, it also provides guidance as to WTO Members' shared understandings of the policies and norms relevant to trademarks and, hence, what might be the legitimate interests of trademark owners. The function of trademarks can be understood by reference to Article 15.1 as distinguishing goods and services of undertakings in the course of trade. Every trademark owner has a legitimate interest in preserving the distinctiveness, or capacity to distinguish, of its trademark so that it can perform that function. This includes its interest in using its own trademark in connection with the relevant goods and services of its own and authorized undertakings. Taking account of that legitimate interest will also take account of the trademark owner's interest in the economic value of its mark arising from the reputation that it enjoys and the quality that it denotes.

7.665 Turning to the Regulation, the evidence shows that the owner's legitimate interest in preserving the distinctiveness, or capacity to distinguish, of its trademark can be taken into account in various ways. Article 7(4) of the Regulation provides that a statement of objection shall be admissible *inter alia* if it shows that the registration of the proposed GI would "jeopardize the existence ... of a mark". This requires GI registration to be refused.

7.666 Article 14(3) also requires the refusal of GI registration in light of a trademark's reputation and renown and the length of time it has been used, if a particular condition is fulfilled. This addresses the distinctiveness, or capacity to distinguish, of prior trademarks and can ensure that, in cases where trademark owners' legitimate interests would be most likely to be affected, the exception in Article 14(2) simply does not apply.

7.667 In the one instance in which Article 14(3) has been applied, the European Communities informs the Panel that its authorities:

"[T]ook account of the submissions made by the interested parties and by some Member States, as well as of the discussions which took place within the Committee. The main facts taken into consideration were the similarity of the signs; the similarity of the products, having regard to the production methods and organoleptic properties; the date of registration of the trademark; the recognition of the trademark in the different EC member States, having regard in particular to the level of exports; and the labeling practices of the trademark and the proposed geographical indication."<sup>586</sup>

7.668 This indicates to the Panel that Article 14(3) of the Regulation was, in fact, applied to take account *inter alia* of the legitimate interest of the trademark owners to protect the distinctiveness of their respective marks.

7.669 In the other instance to which the parties refer, the registration of the three Czech beer GIs contains an endorsement that they apply "without prejudice to any beer trademark or other rights existing in the European Union on the date of accession".<sup>587</sup> Although the European Communities has confirmed that such an endorsement is unique and it has not explained in what other circumstances such an endorsement might be possible, this example does show that, at least in this case, not only the legitimate interests of trademark owners, but also their rights, have been taken into account.

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<sup>586</sup> European Communities' response to Panel question No. 143. Although there is no supporting evidence, all of the considerations cited by the European Communities correspond to factors set out in Articles 13 and 14(3) of the Regulation.

<sup>587</sup> European Communities' rebuttal submission, paras. 286-293; response to Panel question No. 142.

7.670 Where Articles 7(4) and 14(3) of the Regulation are unavailable, and a trademark is subject to Article 14(2), there remains the possibility that its distinctiveness will be affected by the use of the GI. We do not consider this fatal to the applicability of Article 17 given that, as a provision permitting an exception to the exclusive right to prevent uses that would result in a likelihood of confusion, it presupposes that a certain degree of likelihood of confusion can be permitted. In the light of the provisions of Articles 7(4) and 14(3), we are satisfied that where the likelihood of confusion is relatively high, the exception in Article 14(2) will not apply. In any event, even where the exception does apply, Article 14(2) expressly provides that the trademark may continue to be used, on certain conditions.

7.671 We also note that the proviso to Article 17 requires only that exceptions "take account" of the legitimate interests of the owner of the trademark, and does not refer to "unreasonabl[e] prejudice" to those interests, unlike the provisos in Articles 13, 26.2 and 30 of the TRIPS Agreement and Article 9(2) of the Berne Convention (1971) as incorporated by Article 9.1 of the TRIPS Agreement. This suggests that a lesser standard of regard for the legitimate interests of the owner of the trademark is required.

7.672 The United States submits that Article 17 of the TRIPS Agreement requires a case-by-case analysis and that a blanket exception *a priori* does not take into account the legitimate interests of trademark owners. The Panel observes that Articles 7(4) and 14(3) of the Regulation do require a case-by-case analysis at the time of a decision on GI registration and, even though they do not require a case-by-case analysis at the time of subsequent use, nothing in the text of Article 17 indicates that a case-by-case analysis is a requirement under the TRIPS Agreement. Whilst it may be true that in the United States the doctrine of "fair use" is applied by courts on a case-by-case basis, we do not consider that this is necessarily implied in the use of those words in the TRIPS Agreement.<sup>588</sup>

7.673 The Panel notes that there may be situations where, in order to take account of the legitimate interests of the owner of a trademark and third parties, practical conditions may be required to distinguish the goods with the trademark from those using the GI and to distinguish the respective undertakings.

7.674 For these reasons, the Panel considers that the exception created by the Regulation takes account of the legitimate interests of the owner of the trademark within the meaning of Article 17. This finding is confirmed by responses to a question from the Panel which revealed that, of over 600 GIs registered under the Regulation over a period of eight years, the complainants and third parties are unable to identify any that, in their view, could be used in a way that would result in a likelihood of confusion with a prior trademark, with four exceptions. Three of these are the Czech beer GIs, the registration of which is subject to the endorsement set out above. The only remaining example is "Bayerisches Bier", in respect of which the complainants have not shown an example of actual likelihood of confusion with a prior trademark.

7.675 We will now consider whether the exception created by the Regulation takes account of the legitimate interests of third parties.

7.676 The parties to this dispute agree that "third parties" for the purposes of Article 17 include consumers. The function of a trademark is to distinguish goods and services of undertakings in the

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<sup>588</sup> If there were any doubt on this point, can observe that this language in Article 17 was proposed in the TRIPS negotiations by the European Communities and Austria, and was not apparently intended to reflect the United States' practice: see "Synoptic tables setting out existing international standards and proposed standards and principles", prepared by the GATT Secretariat at the request of the Negotiating Group on Trade-related Aspects of Intellectual Property Rights, including trade in counterfeit goods, (document MTN.GNG/NG11/W/32/Rev.2 dated 2 February 1990, p. 51)

course of trade. That function is served not only for the owner, but also for consumers. Accordingly, the relevant third parties include consumers.<sup>589</sup> Consumers have a legitimate interest in being able to distinguish the goods and services of one undertaking from those of another, and to avoid confusion.

7.677 Turning to the Regulation, Article 14(3) expressly addresses consumers, by providing for the refusal of GI registration where "registration is liable to mislead the consumer as to the true identity of the product". In the one instance in which Article 14(3) has been applied, the European Communities informs the Panel that:

"In essence, it was concluded that, although the products were similar, the signs were not sufficiently similar to mislead the public, having regard to the degree of recognition of the trademark in the different Member States."<sup>590</sup>

7.678 This indicates to the Panel that Article 14(3) of the Regulation was, in fact, applied to take account *inter alia* of the legitimate interests of consumers.

7.679 The Panel also observes, once again, that a name can only be registered as a GI where it is used to describe an agricultural product or a foodstuff. It is a precondition to GI registration that some consumers do, in fact, understand that the GI refers to the product from that geographical area with particular qualities or characteristics, which means that they do not consider that it indicates the trademark owner's goods.

7.680 The United States submits that the "third parties" for the purposes of Article 17 include trademark licensees. This may be correct, but the legitimate interests of trademark licensees are, to a large extent, identified with those of the trademark owner, and can be taken into account at the same time. It is not clear how their interests could be taken into account as a separate issue.

7.681 The European Communities submits that "third parties" for the purposes of Article 17 include persons using a GI in accordance with a GI registration. The Panel agrees. Article 17 permits an exception to the rights conferred by a trademark which include, according to Article 16.1, a right to prevent "all third parties" from using certain signs. The basis of the complainant's claim is that those third parties include GI users. It is logical that, if GI users are included in the third parties subject to the trademark owner's right, they are also included in the third parties taken into account in assessing the availability of an exception to that right.

7.682 The legitimacy of the interests of GI users is reflected in the TRIPS Agreement itself, to which all WTO Members have subscribed. Under Section 3 of Part II, all WTO Members agree to provide certain protection to GIs, although they remain free to determine the appropriate method of implementing those provisions in accordance with Article 1.1. The definition of a GI in Article 22.1 reflects a legitimate interest that a person may have in identifying the source and other characteristics of a good by the name of the place where it is from, if the name would serve that purpose. Nevertheless, as "legitimate interests", the interests of GI users as third parties within the meaning of Article 17 would be different from the legal protection provided for in Articles 22 and 23.

7.683 The Panel recalls that the example contained in Article 17 itself of "fair use of descriptive terms" provides some guidance as to what may satisfy its proviso. Its use of the word "fair" and the nature of descriptive terms illustrate a public policy concern that certain terms should be available for use under certain conditions. Although GIs are intellectual property rights, and not purely descriptive terms, the function of the terms in the example is analogous to a descriptive function of GIs and

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<sup>589</sup> This is confirmed by the reference in Article 16.2 to "the relevant sector of the public", in relation to well-known trademarks.

<sup>590</sup> European Communities' response to Panel question No. 143.

provides contextual support for the notion that the interest of GIs users in using a place name to indicate their products is "legitimate".

7.684 Turning to the Regulation, Article 2(2) provides that a "designation of origin" or a "geographical indication" "means the name of a region, a specific place or, in exceptional cases, a country, used to *describe* an agricultural product or a foodstuff ..." (emphasis added). There are additional conditions relevant to the origin and quality, reputation or characteristics of the product. Further, the European Communities has confirmed that use of a GI remains subject to the requirements of the food labelling and misleading advertising directives which prohibit certain misleading and deceptive uses.<sup>591</sup> These considerations support the view that the interests of GI users of which the Regulation takes account are "legitimate".

7.685 Article 13 of the Regulation sets out the protection conferred by GI registration. In providing such protection, the Regulation not only "takes account" of this legitimate interest, it also provides legally enforceable rights.

7.686 For these reasons, the Panel considers that the exception created by the Regulation takes account of the legitimate interests of third parties within the meaning of Article 17.

7.687 On the basis of the evidence presented to the Panel, which is necessarily limited given that Article 14(3) of the Regulation has only been applied once, and for all of the above reasons, the Panel concludes that the European Communities has succeeded in raising a presumption that the exception created by the Regulation to the trademark owner's right provided for in Article 16.1 of the TRIPS Agreement is justified by Article 17 of the TRIPS Agreement. The United States has not succeeded in rebutting that presumption.

7.688 Therefore, the Panel concludes that, with respect to the coexistence of GIs with prior trademarks, the Regulation is inconsistent with Article 16.1 of the TRIPS Agreement but, on the basis of the evidence presented to the Panel, this is justified by Article 17 of the TRIPS Agreement. Article 24.3 and Article 24.5 of the TRIPS Agreement are inapplicable.

#### D. OTHER CLAIMS

##### 1. MFN treatment claims

(a) Availability of protection: MFN treatment under the TRIPS Agreement

(i) *Main arguments of the parties*

7.689 The **United States** claims that the Regulation is inconsistent with the most-favoured-nation obligations in Article 4 of the TRIPS Agreement "and the Paris Convention" because it imposes conditions of *reciprocity* and *equivalence* on the availability of protection. None of the exceptions in Article 4 permit reciprocity in relation to the protection of geographical indications. It cites the GATT panel report in *Belgium – Family Allowances* in which entitlement to an advantage for imported goods made conditional upon the system of family allowances in the exporting Member was found inconsistent with the MFN treatment obligation in GATT. The Regulation does not immediately and *unconditionally* accord the same advantages with respect to availability of protection that it accords to EC nationals. Nationals of WTO Members that satisfy those conditions are accorded

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<sup>591</sup> See *supra* at note 482 and European Communities' first written submission, para. 319; response to Panel question No. 153.



more favourable treatment than nationals of WTO Members that do not. The conditions are placed on third country governments but deny rights to third country nationals.<sup>592</sup>

7.690 The United States draws attention to a joint declaration by the European Community and Switzerland for the mutual protection of GIs to be incorporated in a bilateral agreement. However, it challenges the Regulation "as such". The terms of the Regulation prevent the European Commission from determining that all WTO Members satisfy the conditions in Article 12(1): some may satisfy those conditions but others do not. The Regulation cannot be administered in such a way that will treat nationals of all WTO Members as favourably as each other and as favourably as EC nationals. The availability of registration is conditioned on a country-by-country basis. If the Commission refused to apply the Regulation to all third countries, this would theoretically ensure equal treatment but would be inconsistent with the national treatment obligation. In any case, the Regulation does not appear to permit the Commission to refuse to apply it to all third countries.<sup>593</sup>

7.691 The **European Communities** responds that this claim must fail. It argues that it does not, in fact, apply the conditions in Article 12(1) of the Regulation to geographical areas located in WTO Members.<sup>594</sup> It also argues that the conditions on availability of protection do not apply to nationality but according to the location of geographical areas.<sup>595</sup> These defences were considered in paragraphs 7.52 to 7.103 above.

7.692 The European Communities argues that the joint declaration of the European Community and Switzerland is irrelevant to this dispute because it is merely a political declaration stating the intention of the parties to incorporate, at a later stage, provisions on the protection of GIs in an agreement on trade in agricultural products, which has not yet occurred. It argues that the conditions in Article 12(1) of the Regulation are the same for all third countries which fall under that provision.

7.693 In the absence of a decision under Article 12(3) of the Regulation, Article 12 does not confer any advantage on a third country. It notes that, in GATT panel reports in both *Belgium - Family Allowances* and *EEC – Imports of Beef from Canada*, violations were found after the respondents had actually granted advantages to certain third countries. In response to a question from the Panel, it indicated that if the conditions in Article 12(1) are fulfilled, the Commission will normally recognize the country in question but Article 12(1) creates no legal "obligation" as against the third country. This follows from the wording in Article 12(1) that "this Regulation may apply".<sup>596</sup>

7.694 The European Communities does not contest that MFN treatment under the TRIPS Agreement applies to more extensive protection granted in respect of intellectual property rights addressed in the TRIPS Agreement.<sup>597</sup>

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<sup>592</sup> United States' first written submission, paras. 117-122; rebuttal submission, para. 104; second oral statement, para. 60.

<sup>593</sup> United States' rebuttal submission, paras. 107-108; first oral statement, para. 36; second oral statement, para. 64.

<sup>594</sup> European Communities' first written submission, paras. 231-234. From an abundance of caution, the European Communities also stated its view that the product-specific conditions for the registration of individual GIs are examined for each product individually and do not discriminate according to nationality or product origin: see its first written submission, paras. 235-238.

<sup>595</sup> European Communities' first written submission, paras. 241-247.

<sup>596</sup> European Communities' first written submission, paras. 239-245; first oral statement, para. 79; second oral statement, para. 139; response to Panel question No. 112.

<sup>597</sup> European Communities' response to Panel question No. 111.

*(ii) Main arguments of third parties*

7.695 **Mexico** submits that the Regulation violates the MFN treatment obligation in Article 4 of the TRIPS Agreement. Article 12(1) of the Regulation prescribes treatment which discriminates among third countries to the detriment of those which do not satisfy the conditions of reciprocity.<sup>598</sup>

7.696 **Chinese Taipei** submits that the Regulation violates the MFN treatment obligation in Article 4 of the TRIPS Agreement. Having granted protection to the nationals of a WTO Member who hold GIs located in the territory of that Member, the Regulation denies the same advantage to the nationals of other Members who hold GIs located in other territories.<sup>599</sup>

*(iii) Consideration by the Panel*

7.697 This claim is made under the MFN treatment obligation in Article 4 of the TRIPS Agreement, which provides, relevantly, as follows:

"With regard to the protection of intellectual property, any advantage, favour, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members."

7.698 The following two elements must be satisfied to establish an inconsistency with this obligation: (1) the measure at issue must apply with regard to the protection of intellectual property; and (2) the nationals of other Members are not "immediately and unconditionally" accorded any advantage, favour, privilege or immunity granted by a Member to the nationals of any other country. The Panel will consider each of these elements in turn.

Protection of intellectual property

7.699 The MFN treatment obligation in Article 4 of the TRIPS Agreement applies "with regard to the protection of intellectual property". Footnote 3 provides an inclusive definition of the term "protection" as used in Articles 3 and 4, which is quoted at paragraphs 7.126 above.

7.700 The Panel recalls its findings at paragraphs 7.128 and 7.129 of this report that the conditions of reciprocity and equivalence in Article 12(1) of the Regulation are matters affecting the availability of intellectual property rights, in relation to "designations of origin" and "geographical indications", as defined in the Regulation, which are part of a category of intellectual property within the meaning of Article 1.2 of the TRIPS Agreement.

7.701 Therefore, this claim concerns the "protection" of intellectual property, as clarified in footnote 3 to the TRIPS Agreement, within the scope of the MFN treatment obligation in Article 4 of that Agreement.

7.702 It is not necessary to show that the Regulation implements the minimum standards in Part II of the TRIPS Agreement for the purposes of these claims. MFN treatment applies to the protection of intellectual property, even where measures provide a higher level of protection. Indeed, MFN treatment under the TRIPS Agreement generally only has an independent application where a Member grants to the nationals of any other country a level of protection that is higher than it grants to its own nationals and higher than the minimum standards laid down in the TRIPS Agreement.

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<sup>598</sup> Annex C, para. 111.

<sup>599</sup> Annex C, paras. 173-176.

Any advantage, favour, privilege or immunity granted by a Member to the nationals of any other country

7.703 The Panel recalls its conclusion at paragraph 7.102 that the United States has made a *prima facie* case that the registration procedure in Articles 12a and 12b of the Regulation is not available for GIs located in third countries, including WTO Members, that do not satisfy the conditions in Article 12(1). As a result, the Panel found that GI protection is not available under the Regulation in respect of geographical areas located in third countries which the Commission has not recognized under Article 12(3), although GI protection under the Regulation may become available if the third country in which the GI is located enters into an international agreement or satisfies the conditions in Article 12(1).

7.704 This constitutes an "advantage, favour, privilege or immunity" granted by the European Communities with regard to the protection of intellectual property. It is subject to the satisfaction of the equivalence and reciprocity conditions, or the conclusion of an international agreement, or both, which indicates that it is not accorded "immediately and unconditionally".

7.705 However, that is not sufficient to demonstrate an inconsistency with Article 4 of the TRIPS Agreement, as it must be shown that the advantage, favour, privilege or immunity is granted by a Member "to the nationals of any other country". It is unnecessary for the purposes of this claim to re-examine the issue of how the Regulation discriminates according to nationality, considered in Section VII:B of this report, because the European Commission has not recognized *any* other country as satisfying the conditions under Article 12(1) under the procedure in Article 12(3). However, the United States challenges the Regulation "as such".

7.706 The Panel notes that various GATT and WTO panels have applied the so-called "mandatory/discretionary distinction" as an analytical tool for evaluating claims brought against legislation "as such".<sup>600</sup> Although the Appellate Body has not yet pronounced generally upon its continuing relevance or significance, it has observed that its importance may vary from case to case and it has cautioned against the application of this distinction in a mechanistic fashion.<sup>601</sup>

7.707 Turning to the Regulation at issue in this dispute, the United States accepts that, theoretically, a refusal to apply the Regulation to *any* third country would ensure that no advantage, favour, privilege or immunity would be granted to the nationals of any third country within the meaning of Article 4 of the TRIPS Agreement, although it would be inconsistent with the European Communities' national treatment obligations under Article 3.<sup>602</sup> However, the United States submits that, where the conditions in Article 12(1) of the Regulation are satisfied, "it appears that the Commission would have to make an affirmative decision to that effect".<sup>603</sup>

7.708 The European Communities does *not* indicate that the Commission would exercise any discretion in an MFN-consistent manner by refusing to recognize any third country but expressly states that if the conditions in Article 12(1) of the Regulation are fulfilled the Commission *will* normally recognize the country in question. Its primary defence is that the conditions in paragraph 1 and the recognition procedure in paragraph 3 do not apply to WTO Members, which we have found in Section VII:B of this report is not the case.

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<sup>600</sup> Appellate Body report on *US – 1916 Act*, paras. 61 and 88, citing the GATT Panel report on *US – Tobacco* at para. 118.

<sup>601</sup> *US – Corrosion-Resistant Steel Sunset Review*, para. 93.

<sup>602</sup> United States' rebuttal submission, para. 108. It is also clear that the application of the Regulation to *all* third countries would also be consistent with MFN treatment. However, it is not disputed that, to the extent that the conditions apply, the Commission cannot recognize *all* third countries.

<sup>603</sup> United States' response to Panel question No. 112.

7.709 In these circumstances, the Panel considers it appropriate to recall that, in view of its conclusion at paragraph 7.213 above, even if the Commission can refuse to recognize all third countries under the procedure in Article 12(3), this would necessarily be inconsistent with its national treatment obligation under Article 3.1 of the TRIPS Agreement. Given that the Panel has already found that the Regulation is inconsistent with that obligation, a further conclusion on the MFN obligation would provide no additional positive contribution to a solution to this dispute. Therefore, the Panel exercises judicial economy with respect to this claim.

(b) Availability of protection: MFN treatment under GATT 1994

(i) *Main arguments of the parties*

7.710 The **United States** claims that the Regulation is inconsistent with Article I:1 of GATT 1994 because it applies conditions of *equivalence* and *reciprocity* to the benefits of registration. It reiterates its arguments from its national treatment claim under Article III:4 that the Regulation applies to *like products* and is a measure affecting internal sale etc. and argues that, therefore, it is a *matter referred to in paragraph 4 of Article III* within the meaning of Article I:1 of GATT 1994. It reiterates its arguments concerning less favourable treatment of imported products and argues that these are significant *advantages* granted to products imported from a third country that are not immediately and *unconditionally* accorded to the products of all other Members.<sup>604</sup>

7.711 The **European Communities** responds that there is no violation of Article I:1 of GATT 1994. It reiterates its arguments in relation to MFN treatment under TRIPS that it does not, in fact, apply the conditions in Article 12(1) of the Regulation to geographical areas located in WTO Members; and that the conditions in Article 12(1) of the Regulation are the same for all third countries which fall under that provision.<sup>605</sup>

(ii) *Consideration by the Panel*

7.712 The Panel notes that Article I:1 of GATT 1994 provides, relevantly, as follows:

"... with respect to all matters referred to in paragraphs 2 and 4 of Article III,\* any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties."

7.713 The Panel recalls its finding at paragraph 7.227 that the Regulation is a law or regulation affecting the internal sale and offering for sale of products within the meaning of Article III:4 of GATT 1994. It therefore falls within the "matters referred to in paragraphs 2 and 4 of Article III" as that phrase is used in Article I:1.

7.714 The Panel also recalls its finding at paragraph 7.229 that the Regulation discriminates on its face among products and that the European Communities does not contest that there are, among this group, "like products" among the imported products and products of European Communities origin, for the purposes of Article III:4 of GATT 1994. Protection under the Regulation is provided against use of a name in respect of products "comparable to the products registered under that name". In the

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<sup>604</sup> United States' first written submission, paras. 123-127.

<sup>605</sup> European Communities' first written submission, paras. 261 and 263. From an abundance of caution, the European Communities also stated its view that the product-specific conditions for the registration of individual GIs are examined for each product individually and do not discriminate according to nationality or product origin. As such, there is no violation of Article I:1 of GATT 1994 and, in the alternative, they are justified under Article XX(d): see its first written submission, paras. 262, 265-266.

Panel's view, this is sufficient basis to conclude that there are "like products" among the imported products of other countries including WTO Members for the purposes of Article I:1 of GATT 1994.

7.715 The Panel also recalls its finding at paragraph 7.704, that the advantage of availability of protection is not accorded "immediately and unconditionally".

7.716 However, in view of the Panel's conclusion at paragraph 7.238 above, even if the Commission can refuse to recognize all third countries under the procedure in Article 12(3), this would necessarily be inconsistent with the national treatment obligation in Article III:4 of GATT 1994. Given that the Panel has already found that, in this respect, the Regulation is inconsistent with that obligation, a further conclusion with respect to the European Communities' MFN treatment obligation would provide no additional positive contribution to a solution to this dispute. Therefore, the Panel chooses to exercise judicial economy with respect to this claim.

(c) Application and objection procedures

(i) *Main arguments of the parties*

7.717 The **United States** submits that the Regulation "is inconsistent with the most-favoured nation obligation of the TRIPS Agreement for the same reasons that it is inconsistent with the national treatment obligation of the TRIPS Agreement".<sup>606</sup> It argues that nationals of other WTO Members can register their home-based GIs if they are from a country which agrees to substantial participation in administering and enforcing the Regulation on behalf of its nationals.<sup>607</sup> There is no room for the Commission to determine that all WTO Members satisfy the conditions of the Regulation. Some Members might be able to prosecute applications successfully on behalf of their nationals but others cannot.<sup>608</sup> The United States also argues that the right to object is subject to WTO Members' satisfaction of conditions of *equivalence* and *reciprocity*.<sup>609</sup> For these reasons, the Regulation does not immediately and *unconditionally* accord to nationals of all WTO Members the advantages accorded to EC nationals.<sup>610</sup>

7.718 The **European Communities** does not respond specifically to this claim in relation to the right to object.<sup>611</sup> However, in its description of the Regulation it argues that Article 12d grants a right of objection to persons from WTO Members because the phrase "recognised under the procedure provided for in Article 12(3)" only applies to other third countries. The conditions of *equivalence* and *reciprocity* do not apply to WTO Members to the right to object. Otherwise, the specific reference to "WTO Members" would be meaningless. This is also clear in Article 12b(2).<sup>612</sup>

(ii) *Consideration by the Panel*

7.719 The Panel recalls its findings at paragraphs 7.262 and 7.329 that the application and objection procedures under the Regulation are matters affecting the acquisition of intellectual property rights, in relation to "designations of origin" and "geographical indications", as defined in the Regulation, which are part of a category of intellectual property within the meaning of Article 1.2 of the TRIPS Agreement. Therefore, these claims concern the "protection" of intellectual property, as clarified in

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<sup>606</sup> United States' first written submission, para. 118.

<sup>607</sup> United States' rebuttal submission, para. 104.

<sup>608</sup> United States' first written submission, para. 117, fn. 102; rebuttal submission, para. 107.

<sup>609</sup> United States' rebuttal submission, para. 104.

<sup>610</sup> United States' rebuttal submission, para. 104.

<sup>611</sup> European Communities' first written submission, paras. 227-256.

<sup>612</sup> European Communities' first written submission, paras. 73-75; first oral statement, para. 50; second oral statement, paras. 86-88.

footnote 3 to the TRIPS Agreement, within the scope of the MFN treatment obligation in Article 4 of that Agreement.

7.720 The Panel recalls its finding at paragraph 7.352 that the procedure for recognition of third countries under Article 12(3) of the Regulation does not apply to WTO Members with respect to objection procedures.

7.721 The Panel has not found that there is any difference in the application and objection procedures under Articles 12b and 12d of the Regulation regarding the nationals of different WTO Members. Any differences that arise in practice would appear to depend on the actions of various other WTO Member governments. However, the MFN obligation in Article 4 of the TRIPS Agreement applies only to any advantage, favour, privilege or immunity "granted by a Member", in this case, the European Communities. The United States has not shown how the differences in the treatment accorded to nationals of different Members are granted by the European Communities. Therefore, the Panel concludes that the United States has not made a *prima facie* case in support of this claim.

(d) Execution of the Regulation by authorities of EC member States

(i) *Main arguments of the parties*

7.722 The **United States** argues that nationals of EC member States – which are WTO Members in their own right – are accorded more favourable treatment than nationals of WTO Members outside the European Communities. EC member States are not excused from this obligation by the fact that they are acting pursuant to an EC Regulation. Measures of EC member States are within the terms of reference because the request for establishment of a panel specifies not only the Regulation but also "its related implementation and enforcement measures".<sup>613</sup>

7.723 The **European Communities** argues that EC member States do not grant "advantages" within the meaning of the MFN treatment obligation because the Regulation is a Community measure adopted to harmonize Community law and the European Communities is an original Member of the WTO in its own right. The European Communities is the respondent in this Panel proceeding and claims of violations by EC member States cannot be raised. In any event, the United States has not identified any measures of EC member States.<sup>614</sup>

(ii) *Consideration by the Panel*

7.724 The Panel observes that in this claim the United States asserts, in effect, that nationals of EC member States are "nationals of any other country" within the meaning of Article 4 of the TRIPS Agreement, quoted at paragraph 7.697 above. This, in turn, depends on the interpretation that each EC member State constitutes "any other country" within the meaning of Article 4 of the TRIPS Agreement.

7.725 The Panel recalls its finding at paragraph 7.150 as to which persons are the European Communities' own nationals. The Panel also recalls its findings at paragraph 7.98 that it has accepted the European Communities' explanation of what amount to its *sui generis* domestic constitutional arrangements that Community laws are generally not executed through authorities at Community level but rather through recourse to the authorities of its member States which, in such a situation, "act

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<sup>613</sup> United States' first written submission, para. 121; first oral statement, para. 37; rebuttal submission, paras. 110-113; second oral statement, para. 65.

<sup>614</sup> European Communities' first written submission, paras. 249-255; rebuttal submission, paras. 252-256; second oral statement, paras. 145-149.

*de facto* as organs of the Community, for which the Community would be responsible under WTO law and international law in general".<sup>615</sup> Therefore, to the extent that advantages are granted under the Regulation, by the Community and EC member State authorities exercising powers under the Regulation, to the European Communities' own nationals, those advantages are not granted to "the nationals of any other country", within the meaning of Article 4 of the TRIPS Agreement.

7.726 Therefore, the Panel rejects this claim, to the extent that it is based on the execution of the Regulation by the authorities of EC member States.

7.727 The Panel wishes to confirm that it has accepted the European Communities' explanation as to the way in which Community laws are executed not only for this MFN claim but also for the national treatment claims<sup>616</sup>. This has repercussions for the European Communities' defences to those other claims, in particular concerning the application and objection procedures, as noted at paragraphs 7.269 and 7.339 of this report. The Panel has applied this explanation of the way in which Community laws are executed in a consistent manner to all relevant claims in this dispute.

7.728 Finally, the Panel notes that the United States has also referred to the Paris Convention (1967), which does not contain a MFN treatment obligation. There is no need to consider this further.

7.729 In summary, with respect to the MFN treatment claims:

- (a) under Article 4 of the TRIPS Agreement:
  - (i) with respect to the availability of protection, the Panel exercises judicial economy;
  - (ii) with respect to the application and objection procedures, the United States has not made a *prima facie* case in support of its claim; and
  - (iii) with respect to the execution of the Regulation by the authorities of EC member States, the Panel rejects the claim; and
- (b) under Article I:1 of GATT 1994, the Panel exercises judicial economy.

## 2. Minimum standards of GI protection

(a) Main arguments of the parties

7.730 The **United States** claims that the Regulation is inconsistent with Article 22.2 of the TRIPS Agreement because it does not provide interested parties in other WTO Members which do not satisfy the *equivalence and reciprocity conditions*, including inspection structures, the legal means to protect their GIs on a uniform basis throughout the territory of the European Communities. Article 2 of the Regulation provides that GIs for certain products "shall be obtained" in accordance with the Regulation and does not appear to permit GI protection through other means.<sup>617</sup> Once a complainant presents a *prima facie* case that a measure is inconsistent with a WTO obligation, the respondent then bears the burden to rebut that case by showing that there is no inconsistency, which may include demonstrating that other domestic measures eliminate the alleged inconsistency. If there were other measures somewhere in the legal system of the European Communities or its member States that

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<sup>615</sup> European Communities' second oral statement, para. 148.

<sup>616</sup> See para. 7.98 above.

<sup>617</sup> United States' first written submission, paras. 171-176; rebuttal submission, paras. 212 and 216.

compensated for the inconsistencies in the Regulation, the United States submits that the European Communities would have and should have come forward with them, but that it has failed to do so.<sup>618</sup>

7.731 The United States also claims that the Regulation is inconsistent with Article 22.2 of the TRIPS Agreement because interested parties in other WTO Members must depend on their respective governments to intercede on their behalf in the *verification and transmission of applications*.<sup>619</sup>

7.732 The United States also claims that the Regulation is inconsistent with Article 22.2 of the TRIPS Agreement with respect to *objections* because (1) persons who wish to object to the registration of a GI cannot do so directly<sup>620</sup>; (2) the Regulation does not permit persons in other WTO Members which do not satisfy the equivalence and reciprocity conditions the right to object<sup>621</sup>; (3) persons who wish to object to the registration of a GI must have a legitimate interest or a legitimate economic interest in the European Communities, but an interested party can be any producer or seller established in the region falsely indicated as the source in a given territory<sup>622</sup>; and (4) the grounds for objection based on a prior trademark in Article 7(4) of the Regulation are narrower than the rights required to be made available under Article 22.2 of the TRIPS Agreement. A registered GI could be misleading. Registration grants an affirmative right to use, which cannot be prevented after registration, so that the right of objection to registration must be available to all interested parties.<sup>623</sup> The United States confirms that it does not make any claim under Part IV of the TRIPS Agreement but that a measure can violate both Parts II and IV.<sup>624</sup>

7.733 The **European Communities** responds that the conditions of *equivalence and reciprocity* do not apply to WTO Members.<sup>625</sup> In any event, even if all the United States' arguments were correct, the European Communities would still comply with Article 22.2 of the TRIPS Agreement because the Regulation is not the only means made available by the European Communities and its member States in order to prevent the acts mentioned in Article 22.2. Specifically, additional means of protection are provided in the foodstuffs labelling, misleading advertising and trademarks directives, and the implementing legislation of the EC member States, the Community Trademark Regulation and the unfair competition laws of the EC member States. These laws have been notified under the TRIPS Agreement and identified in responses to questions in the TRIPS Council review under Article 24.2 of the TRIPS Agreement. These various measures and the Regulation apply cumulatively. They are sufficient to implement the European Communities' obligation under Article 22.2 of the TRIPS Agreement and are outside the Panel's terms of reference.<sup>626</sup> The complainants were well aware of the existence of these other measures. Had they been of the view that they were insufficient to comply with Article 22.2 they could and should have mentioned them in their panel requests. They cannot shift the burden of proof to the respondent simply by asserting that the respondent provides no means of implementation.<sup>627</sup>

7.734 The European Communities submits that the *transmission of applications* is a modality of the registration process. The United States has not shown that it is unreasonable and inconsistent with

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<sup>618</sup> United States' response to Panel question No. 158.

<sup>619</sup> United States' first written submission, paras. 177-178; rebuttal submission, para. 213.

<sup>620</sup> United States' first written submission, para. 179; rebuttal submission, para. 213.

<sup>621</sup> United States' first written submission, para. 180.

<sup>622</sup> United States' first written submission, para. 181; rebuttal submission, para. 214.

<sup>623</sup> United States' first written submission, para. 182; rebuttal submission, paras. 215-216; second oral statement, para. 69.

<sup>624</sup> United States' response to Panel question No. 84.

<sup>625</sup> European Communities' first written submission, paras. 422-423.

<sup>626</sup> European Communities' first written submission, paras. 421, 433-436; response to Panel question No. 159.

<sup>627</sup> European Communities' response to Panel question No. 162.



Article 62.1 of the TRIPS Agreement. Such a claim would be outside the Panel's terms of reference.<sup>628</sup>

7.735 The European Communities submits that Article 22.2 does not confer a *right to object* to the registration of a GI. Even if it did, (1) the rights conferred under Article 22.2 can be made subject to compliance with reasonable procedures and formalities, and transmission through governments is neither excessive nor unreasonable; (2) the conditions of reciprocity and equivalence do not apply to the right of objection; (3) although persons who wish to object must have an economic interest in the European Communities, this does not require them to establish or do business within the European Communities; (4) there are grounds for objection under Article 7(4) and it does not see what other acts of unfair competition could arise from the valid registration of a GI.<sup>629</sup> The European Communities agrees that a procedure for the acquisition of an intellectual property right may violate both Parts I and IV, and both Parts II and IV, of the TRIPS Agreement, but Article 22.2 does not regulate expressly the right of opposition and it may not be assumed that this derogates from the generally applicable rules under Part IV.<sup>630</sup> Further, registration of a GI is not a "use" covered by Article 22.2.<sup>631</sup>

(b) Consideration by the Panel

(i) *Introduction*

7.736 The Panel begins by recalling that the United States, in its request for establishment of a panel, cited Article 22.2 of the TRIPS Agreement in the series of numbered provisions and, in the narrative text, paraphrased the text of subparagraph (a) of Article 22.2. It was clear on a plain reading of the request that the series of numbered provisions was not to be limited to what appeared in the narrative text, even though it did not paraphrase subparagraph (b) of Article 22.2.<sup>632</sup> It is unnecessary for the purposes of this report to distinguish further between subparagraphs (a) and (b) as our findings apply with equal force to both.

7.737 Article 22.2 of the TRIPS Agreement provides as follows:

"2. In respect of geographical indications, Members shall provide the legal means for interested parties to prevent:

(a) the use of any means in the designation or presentation of a good that indicates or suggests that the good in question originates in a geographical area other than the true place of origin in a manner which misleads the public as to the geographical origin of the good;

(b) any use which constitutes an act of unfair competition within the meaning of Article 10*bis* of the Paris Convention (1967)."

7.738 The term "geographical indications" is defined in Article 22.1 of the TRIPS Agreement. It is not disputed that registered "designations of origin" and registered "geographical indications", as defined in the Article 2(2) of the Regulation, are a subset of "geographical indications" as defined in Article 22.1 and therefore relevant to the European Communities' implementation of Article 22.2.

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<sup>628</sup> European Communities' first written submission, paras. 424-426.

<sup>629</sup> European Communities' first written submission, paras. 427-432.

<sup>630</sup> European Communities' rebuttal submission, paras. 395-397.

<sup>631</sup> European Communities' rebuttal submission, para. 398.

<sup>632</sup> See paras. 15-19 of the Panel's preliminary ruling set out in para. 7.2 above.

(ii) *Equivalence and reciprocity conditions; examination and transmission of applications*

7.739 The Panel recalls its conclusion in paragraphs 7.213, 7.238, 7.281 and 7.307 that the equivalence and reciprocity conditions in Article 12(1) of the Regulation, and the procedures for examination and transmission of applications, are inconsistent with the European Communities' national treatment obligations. Now we must consider whether they also deny the legal means that Article 22.2 of the TRIPS Agreement requires the European Communities to provide for interested parties who are nationals of other Members.

7.740 The Panel recalls its findings:

- (a) at paragraph 7.102 that the United States has made a prima facie case that, due to the applicability of the equivalence and reciprocity conditions in Article 12(1) of the Regulation, the registration procedure in Articles 12a and 12b is not available for GIs located in third countries, including WTO Members, that do not satisfy those conditions; and
- (b) at paragraph 7.272 that a group or person who submits an application in a third country has no right to have its application examined or transmitted to the Commission where its Member government does not examine and transmit the application.

7.741 Article 22.2 of the TRIPS Agreement imposes an obligation on Members. The obligation is owed to other Members, as the TRIPS Agreement creates rights and obligations between WTO Members. In this regard, it can be noted that the dispute settlement system of the WTO serves, *inter alia* to preserve the rights and obligations of *Members* under the covered agreements (emphasis added).<sup>633</sup> However, a particularity of the TRIPS Agreement is that the assessment of the conformity of measures with Members' obligations generally requires an assessment of the manner in which they confer rights or protection on private parties.

7.742 Article 1.3 provides that "Members shall accord the treatment provided for in this Agreement to the nationals of other Members". That includes the protection provided for in Article 22.2, which obliges Members to provide legal means for "interested parties". The interested parties must qualify as "nationals of other Members" in accordance with the criteria referred to in Article 1.3. These persons can be private parties, which is reflected in the fourth recital of the preamble to the agreement, which reads "[r]ecognizing that intellectual property rights are private rights".

7.743 Therefore, in order to determine whether the European Communities has implemented its obligation owed to other Members in Article 22.2, the Panel must examine whether it has provided the legal means required by that provision for interested parties who are nationals of other Members.

7.744 Naturally, the treatment that Members are obliged to accord under the TRIPS Agreement is not limited to the bundle of rights conferred on individuals by the grant of an intellectual property right. Whilst Article 22.2 sets out protection conferred by a GI, Article 16.1 sets out rights conferred by a trademark and other provisions in each of the Sections of Part II set out the rights conferred by other categories of intellectual property, these represent a subset of the treatment that Members are obliged to accord under the TRIPS Agreement. All of the obligations of Members considered in this report, including the obligations to accord national treatment and MFN treatment, form part of the treatment to be accorded under the TRIPS Agreement, but only the exclusive rights provided for the

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<sup>633</sup> See Article 3.2 of the DSU.

owner of a trademark and the legal means for interested parties considered in Sections VII:C and D:2 of this report constitute rights or protection conferred on a person by an intellectual property right.<sup>634</sup>

7.745 Turning to the Regulation, we note that it makes protection available, in the sense that it provides legal means to protect GIs. However, those legal means have *not* been provided to interested parties with respect to GIs located in a third country, including a WTO Member, that does not satisfy the equivalence and reciprocity conditions, and the government of which does not examine and transmit an application. These interested parties include persons who are "nationals of other Members" within the meaning of Article 1.3 of the TRIPS Agreement. Further, to the extent that the legal means may be provided to interested parties with respect to such GIs, the Regulation alone does not provide them, because protection is contingent on satisfaction of conditions and execution of certain functions by governments of third countries. Therefore, the Panel concludes that the United States has made a *prima facie* case in support of its claim that *the Regulation* does not make available the legal means to interested parties in accordance with Article 22.2 of the TRIPS Agreement.

7.746 However, the obligation under Article 22.2 is placed on *the European Communities*, not on the Regulation. The TRIPS Agreement creates positive obligations in Parts II and III to accord protection according to certain minimum standards, in addition to the prohibitions against discrimination found in the basic principles under Part I. In accordance with Article 1.1, the European Communities is free to determine the appropriate method of implementing the provisions of the Agreement within its own legal system and practice. It is not obliged to ensure that this particular Regulation implements Article 22.2 where it has other measures that do so.

7.747 The United States has challenged the Regulation only, and not other means by which the European Communities may have implemented Article 22.2. In doing so, the United States has complied with the requirement of Article 6.2 of the DSU that it "identify the specific measures at issue" and has not challenged any and all unspecified measures which the European Communities might have. Yet proof of the treatment accorded by that one specific measure may be inadequate to demonstrate that a Member has not implemented a positive obligation to accord certain treatment.

7.748 The United States submits that the Regulation is an exclusive means of implementation of Article 22.2, at least for agricultural products and foodstuffs, due to the terms of its Article 2(1), which provides as follows:

"Community protection of designations of origin and of geographical indications of agricultural products and foodstuffs shall be obtained in accordance with this Regulation."

7.749 This provision ensures that "designations of origin" and "geographical indications", as defined in Article 2(2) of the Regulation, which are registered for agricultural products and foodstuffs under the Regulation, are protected under the Regulation at the Community level. However, it is not clear that this provision ensures that protection is exclusively available under the Regulation. It may simply reflect the matters set out in the eleventh recital in the preamble which refers to the pre-existing "diversity in the national practices for implementing registered designations of origin and geographical indications" and states that "a Community approach should be envisaged". This does not indicate that the Regulation is exclusive, particularly for GIs that are not registered under it, which presently appears to include all GIs of the nationals of other Members.

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<sup>634</sup> The Panel is aware of the Appellate Body's comments in *Canada – Patent Term*, at para. 56, but confirms the distinction between national treatment and MFN treatment, which must be accorded to the nationals of other Members, and the rights or protection which must be conferred on interested parties in respect of GIs, as intellectual property rights, for the reasons explained in this report.

7.750 The European Communities submits that it implements Article 22.2 through other measures besides the Regulation, including the foodstuffs labelling and misleading advertising directives and implementing legislation of the EC member States. It identified the foodstuffs labelling directive and other measures prior to the Panel proceeding as part of the Community's implementation of the GI provisions of the TRIPS Agreement in a review in the Council for TRIPS and in a letter from Commissioner Lamy to the United States Trade Representative in January 2003<sup>635</sup> and it also listed them in its first written submission and first oral statement. It also referred to unfair competition laws of EC member States.<sup>636</sup> These other means of protection, while not specifically providing for the protection of GIs, prohibit business practices which can involve the misuse of GIs. A broad range of laws of this nature have been referred to by many Members, including the United States, in their implementation of the provisions of Section 3 in the review conducted in the Council for TRIPS under Article 24.2 of the TRIPS Agreement.<sup>637</sup>

7.751 Nevertheless, the United States chose to challenge only the Regulation, as amended, "and its related implementing and enforcement measures". It has not demonstrated that these alternative measures, which lie outside the Panel's terms of reference, are inadequate to provide GI protection to for interested parties nationals of other Members as required under Article 22.2 of the TRIPS Agreement. Therefore, it has not presented sufficient evidence to raise a presumption that the European Communities (as opposed to the Regulation) does not implement its obligations under Article 22.2. Accordingly, the Panel concludes that, with respect to the equivalence and reciprocity conditions and the examination and transmission of applications under the Regulation, the United States has not made a prima facie case that the European Communities has failed to implement its obligation under Article 22.2 of the TRIPS Agreement.<sup>638</sup>

(iii) *Objections*

7.752 The United States also bases its claim under Article 22.2 of the TRIPS Agreement on four arguments that relate to the rights of persons who wish to object to a GI registration, the fourth of which concerns the grounds for objection available to trademark owners.

7.753 The Panel notes that Article 22.2 is found in Part II of the TRIPS Agreement, which sets out minimum standards concerning the availability, scope and use of intellectual property rights. The first seven Sections of Part II contain standards relating to categories of intellectual property rights. Each Section provides for a different category of intellectual property, although at times they refer to one another, setting out, as a minimum, the subject matter which is eligible for protection, the scope of the rights conferred by the relevant category of intellectual property and permitted exceptions to those rights. Section 2 provides for trademarks. Article 22.2 is located in Section 3, which provides for the category of GIs. Whilst the provisions on protection of GIs affect the protection of trademarks, as expressly recognized in Articles 22.3 and 23.2, Section 3 does not provide for trademark protection, except to the extent that trademark systems are used to protect GIs.

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<sup>635</sup> Exhibit US-73, attachment, page 1, *supra* at note 46.

<sup>636</sup> Responses to the Checklist of questions received from the European Communities in the TRIPS Council "Review under Article 24.2 of the application of the provisions of the section of the TRIPS Agreement on geographical indications", document IP/C/W/117/Add.10, dated 26 November 1998, set out in Exhibit EC-29. European Communities' first written submission, para. 434; first oral statement, para. 35.

<sup>637</sup> See document IP/C/W/253/Rev.1, pp. 6-8.

<sup>638</sup> The Panel's findings are limited to the circumstances of this particular dispute and do not imply that a respondent can avoid a finding of inconsistency with an affirmative obligation to implement protection simply by asserting that alternative measures outside the Panel's terms of reference implement its obligations. It can be noted that in previous disputes which also involved an obligation to provide particular "means" under the TRIPS Agreement, the Panels and the Appellate Body referred to alternative measures which allegedly implemented the obligation, but it was not contested that the alternative measures lay outside the terms of reference: see the reports in *India – Patents (US) and (EC)* (documents WT/DS50/R; WT/DS50/AB/R and WT/DS79/R).

7.754 Article 22.2 does not provide for a right of objection to the registration of a GI. Although Article 15.5 provides for a right of objection to registration of a trademark, no provision in Part II of the TRIPS Agreement provides for objections to the registration of a GI.

7.755 Therefore, the Panel rejects the United States' arguments in support of this claim insofar as they relate to objections to GI registration, including objections by trademark owners.

7.756 There are provisions on the acquisition and maintenance of intellectual property rights, including GIs, in Article 62. These specifically refer to related *inter partes* procedures such as opposition, revocation and cancellation, in paragraph 4, which is cross-referenced in paragraph 5, where a Member's law provides for such procedures. The opportunity or right to object forms part of an opposition procedure. However, Article 62 lies outside the Panel's terms of reference.

7.757 The Panel also recalls its finding at paragraph 7.352 that the equivalence and reciprocity conditions do not apply to the right of objection by persons resident or established in WTO Members. The United States' second argument relating to objections in support of its claim under Article 22.2 is unfounded for this reason as well.

(iv) *Conclusion with respect to Article 22.2 of the TRIPS Agreement*

7.758 In view of the findings at paragraphs 7.751, 7.755 and 7.757, with respect to this claim, the Panel concludes that the United States has not made a prima facie case that the European Communities has failed to implement its obligation under Article 22.2 of the TRIPS Agreement.

### 3. Claims under Part III of the TRIPS Agreement

(a) Main arguments of the parties

7.759 The **United States** claims that the Regulation is inconsistent with Articles 41.1, 41.2, 41.4, 42 and 44.1 of the TRIPS Agreement because it denies the owner of a registered trademark the right provided for in Article 16.1 of the TRIPS Agreement, and because it does not, with respect to a GI, provide the rights provided for in Article 22.2 of the TRIPS Agreement.<sup>639</sup> It requests a finding that the enforcement obligations of the TRIPS Agreement apply to the Regulation to the extent that it makes unavailable to right holders the requisite enforcement procedures and remedies.<sup>640</sup>

7.760 The **European Communities** responds that these claims are unfounded because Part III of the TRIPS Agreement does not apply to the Regulation. The Regulation lays down an administrative procedure for the acquisition of GIs via a system of registration and does not purport to regulate enforcement procedures, which are the subject of Part III of the TRIPS Agreement.<sup>641</sup>

(b) Consideration by the Panel

7.761 These claims are made under the obligations with respect to enforcement procedures found in Part III of the TRIPS Agreement. The obligations in Part III are applicable to acts of infringement of geographical indications by virtue of the use of the term "intellectual property" in Part III and the definition of "intellectual property" in Article 1.2. However, the United States' claims are dependent on its claims concerning the minimum standards in Part II of the Agreement, specifically Articles 16.1 and 22.2. Given that the Panel has ruled on the claims under Articles 16.1 and 22.2, further findings

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<sup>639</sup> United States' first written submission, paras. 184-188; rebuttal submission, para. 218.

<sup>640</sup> United States' rebuttal submission, para. 219.

<sup>641</sup> European Communities' first written submission, paras. 357-386, 390-397.

on the claims under Part III would not provide any additional contribution to a positive solution to this dispute. Therefore, the Panel exercises judicial economy with respect to these claims.<sup>642</sup>

#### 4. Claim under Article 1.1 of the TRIPS Agreement

##### (a) Main arguments of the parties

7.762 The **United States** claims that the inspection structures requirements force Members to adopt a particular set of rules to implement the TRIPS Agreement, contrary to Article 1.1. Protection is conditioned on the existence of inspection structures that the European Communities unilaterally decides are *equivalent* to those in the European Communities.<sup>643</sup> The United States does not challenge the EC inspection system itself, it challenges whether the European Communities can unilaterally require that other WTO Members adopt its system.<sup>644</sup>

7.763 The **European Communities** responds that the requirement of inspection structures is consistent with Article 1.1 of the TRIPS Agreement because it exclusively concerns GI protection in the European Communities and not other Members' systems of protection.<sup>645</sup>

##### (b) Consideration by the Panel

7.764 Article 1.1 of the TRIPS Agreement provides as follows:

"1. Members shall give effect to the provisions of this Agreement. 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. Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice."

7.765 To the extent that this claim concerns the equivalence and reciprocity conditions in Article 12(1) of the Regulation, which condition the treatment accorded to the nationals of other Members on the system of protection in those other Members, the Panel has made abundant findings in Section VII:B of this report.

7.766 To the extent that this claim concerns the inspection structures requirement for particular products, the Panel recognizes that these requirements may require inspections to take place not only within the European Communities but also within the territory of other WTO Members, for example, where the specifications concern production processes or other matters not related to the physical characteristics of the product itself. The evidence before the Panel does not disclose that these inspections concern other WTO Members' system of protection but, rather, only compliance with the product specifications, which are a feature of the European Communities' system of protection.

7.767 Therefore, the evidence does not suggest that they are inconsistent with the freedom granted under the third sentence of Article 1.1. For this reason, the Panel rejects this claim.<sup>646</sup>

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<sup>642</sup> In this respect, see the United States' responses to Panel question Nos. 82 and 83.

<sup>643</sup> United States' first written submission, paras. 59, 64.

<sup>644</sup> United States' second oral statement, para. 30.

<sup>645</sup> European Communities' rebuttal submission, para. 100.

<sup>646</sup> This conclusion refers only to the United States' claim under Article 1.1 of the TRIPS Agreement and is without prejudice to the Panel's conclusion at paragraph 7.431 that certain aspects of the inspection structures requirements are inconsistent with Article 3.1 of the TRIPS Agreement. Those aspects contravene the provisions of the Agreement within the meaning of the proviso in the second sentence of Article 1.1.

## 5. Claim under Article 65.1 of the TRIPS Agreement

### (a) Main arguments of the parties

7.768 The **United States** claims that the Regulation is inconsistent with Article 65.1 of the TRIPS Agreement, which obliged the European Communities to apply the provisions of the TRIPS Agreement by 1 January 1996, because it is still inconsistent with several provisions of the Agreement.<sup>647</sup>

7.769 The **European Communities** responds that this claim is dependent on the substantive claims and is equally unfounded.<sup>648</sup>

### (b) Consideration by the Panel

7.770 The Panel notes that this is a consequential claim and considers that a finding on it would not provide any additional contribution to a positive solution to this dispute. Therefore, the Panel exercises judicial economy with respect to this claim.

## VIII. CONCLUSIONS AND RECOMMENDATION

8.1 In light of the findings set out in this report, the Panel concludes as follows:

*From Section A of the findings:*

- (a) the measures and claims in the United States' request for establishment of a panel did not fail to meet the requirements of Article 6.2 of the DSU that it identify the specific measures at issue and provide a brief summary of the legal basis of the complaint sufficient to present the problem clearly;
- (b) the claims under Article 2(2) of the Paris Convention (1967) are within the Panel's terms of reference;

*From Section B of the findings:*

- (c) the United States has made a prima facie case that the equivalence and reciprocity conditions in Article 12(1) of the Regulation apply to the availability of protection for GIs that refer to geographical areas located in third countries outside the European Communities, including WTO Members, and the European Communities has not succeeded in rebutting that case;
- (d) the Regulation is inconsistent with Article 3.1 of the TRIPS Agreement:
  - (i) with respect to the equivalence and reciprocity conditions, as applicable to the availability of protection for GIs;
  - (ii) with respect to the application procedures, insofar as they require examination and transmission of applications by governments;
  - (iii) with respect to the objection procedures, insofar as they require verification and transmission of objections by governments; and

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<sup>647</sup> United States' first written submission, paras. 189-190.

<sup>648</sup> European Communities' first written submission, paras. 502-503.

- (iv) with respect to the requirements of government participation in the inspection structures under Article 10, and the provision of the declaration by governments under Article 12a(2)(b);
- (e) the United States has not made a prima facie case in support of its claim that the Regulation is inconsistent with Article 3.1 of the TRIPS Agreement:
  - (i) with respect to the equivalence and reciprocity conditions, as allegedly applicable to objections;
  - (ii) with respect to the standing requirements for objections;
  - (iii) with respect to the allegedly prescriptive requirements for inspection structures; or
  - (iv) with respect to the labelling requirement;
- (f) the United States has not made a prima facie case in support of its claim that the Regulation is inconsistent with Article 2(1) of the Paris Convention, as incorporated by Article 2.1 of the TRIPS Agreement:
  - (i) with respect to the equivalence and reciprocity conditions, as allegedly applicable to objections;
  - (ii) with respect to the standing requirements for objections; or
  - (iii) with respect to the inspection structures;
- (g) the Regulation does not impose a requirement of domicile or establishment inconsistently with Article 2(2) of the Paris Convention (1967) as incorporated by Article 2.1 of the TRIPS Agreement:
  - (i) with respect to the availability of protection for GIs; or
  - (ii) with respect to the objection procedures;
- (h) the Regulation is inconsistent with Article III:4 of GATT 1994:
  - (i) with respect to the reciprocity and equivalence conditions, as applicable to the availability of protection for GIs;
  - (ii) with respect to the application procedures, insofar as they require examination and transmission of applications by governments, and these requirements are not justified by Article XX(d) of GATT 1994; and
  - (iii) with respect to the requirements of government participation in the inspection structures under Article 10, and the provision of the declaration by governments under Article 12a(2)(b), and these requirements are not justified by Article XX(d) of GATT 1994;
- (i) the United States has not made a prima facie case in support of its claims that the Regulation is inconsistent with Article III:4 of GATT 1994:



- (i) with respect to the equivalence and reciprocity conditions, as allegedly applicable to objections;
- (ii) with respect to the objection procedures, insofar as they require verification and transmission of objections by governments;
- (iii) with respect to the allegedly prescriptive requirements for inspection structures; or
- (iv) with respect to the labelling requirement;

*From Section C of the findings:*

- (j) the Regulation is inconsistent with Article 16.1 of the TRIPS Agreement with respect to the coexistence of GIs with prior trademarks but this is justified by Article 17 of the TRIPS Agreement. In this respect:
  - (i) Article 24.3 of the TRIPS Agreement is inapplicable; and
  - (ii) Article 24.5 of the TRIPS Agreement is inapplicable;

*From Section D of the findings:*

- (k) the United States has not made a prima facie case in support of its claim under Article 4 of the TRIPS Agreement, with respect to the application and objection procedures;
- (l) the Panel rejects the United States' claim under Article 4 of the TRIPS Agreement , with respect to the execution of the Regulation by the authorities of EC member States;
- (m) the United States has not made a prima facie case that the European Communities has failed to implement its obligation under Article 22.2 of the TRIPS Agreement; and
- (n) the Panel rejects the United States' claim that the Regulation is inconsistent with Article 1.1 of the TRIPS Agreement.

8.2 The Panel exercises judicial economy with respect to the United States' claims under:

- (a) Article 2(1) of the Paris Convention (1967), as incorporated by Article 2.1 of the TRIPS Agreement (except as noted at paragraph 8.1(f));
- (b) Article 4 of the TRIPS Agreement, (except as noted at paragraph 8.1(k) and (l));
- (c) Articles 41.1, 41.2, 41.4, 42, 44.1 and 65.1 of the TRIPS Agreement; and
- (d) Article I:1 of GATT 1994.

8.3 Under Article 3.8 of the DSU, in cases where there is an infringement of the obligations assumed under a covered agreement, the action is considered prima facie to constitute a case of nullification or impairment. The Panel concludes that, to the extent that the Regulation as such is inconsistent with the covered agreements, it has nullified or impaired benefits accruing to the United States under these agreements.

8.4 In light of these conclusions, the Panel recommends pursuant to Article 19.1 of the DSU that the European Communities bring the Regulation into conformity with the TRIPS Agreement and GATT 1994.

8.5 The Panel suggests, pursuant to Article 19.1 of the DSU, that one way in which the European Communities could implement the above recommendation with respect to the equivalence and reciprocity conditions, would be to amend the Regulation so as for those conditions not to apply to the procedures for registration of GIs located in other WTO Members which, it submitted to the Panel, is already the case. This suggestion is not intended to diminish the importance of the above recommendation with respect to any of the Panel's other conclusions.

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