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Trade in Counterfeit Goods

PROPOSAL FOR THE ESTABLISHMENT OF DISPUTE PREVENTION
SYSTEM IN RESPECT OF TRANSFER OF TECHNOLOGIES

Communication from the Republic of Korea

The following communication, dated 28 June 1991, has been received from the Permanent Mission of the Republic of Korea, with the request that it be circulated to members of the Negotiating Group.

The Delegation of the Republic of Korea hereby submits the following Proposal for the Establishment of Dispute Prevention System in Respect of Transfer of Technologies ("Proposal"), and respectfully requests that it be formally incorporated and reflected in the Chairman's new draft of the TRIPS Agreement for substantive discussion and possible adoption thereof.

I. PROPOSAL

It is proposed to add, under PART V: DISPUTE PREVENTION AND SETTLEMENT, the following provision.

Article 67 bis: Prevention of Disputes Between Undertakings

1. Private undertakings of different PARTIES engaged in the negotiation of a voluntary licence agreement involving patent and/or know-how may, through their respective government, request the Committee on Trade-Related Aspects of Intellectual Property Rights for an advisory opinion with regard to whether such licence agreement, either in part or as a whole, constitutes an abuse of the patents and/or know-how or has an adverse effect on competition in international trades, subject to the following provisions.

* Know-how, for the purpose of this Article, shall mean a body of Undisclosed Information which has an industrial application.

2. Within two years from its first meeting, the Committee shall, through consultations with PARTIES and in cooperation with bodies of the World Intellectual Property Organization as provided in Article 71, promulgate a Guideline for the Prevention of Abusive Practices in Licence Agreement Involving Patents and/or Know-how.

3. Immediately after the establishment of such Guideline and upon receipt of such request, the Committee shall establish and commission a Licence Review Board(s) comprising a panel of experts selected from the roster established by the Committee for the purpose of reviewing such request and rendering its advisory opinion based on the Guideline.

4. The Committee shall also be authorised to issue an Implementation Regulation relating to:

(i) organisation and other institutional arrangements for the Licence Review Board; and

(ii) procedures for filing and examination of the request.

5. The Licence Review Board shall issue within six months from the referral of the request a written opinion accompanied by the reasons therefor. The Committee shall publish the opinion unless either PARTY, at the time of filing the request, submits a written objection to the publication.

6. The opinion shall not be binding upon any PARTY; and shall not affect any PARTY in adopting its national legislation and carrying out such appropriate measures as referred to in Article 43, para. 2B.

7. Notwithstanding para. 6 above, PARTIES shall not prevent their undertakings from voluntarily agreeing to be bound by the result of the opinion.

II. EXPLANATION OF THE PROPOSAL

A. In General

It is truistic that disputes between the PARTIES involving a right-holder's abusive practices originate from a private contract between the right holder and another individual party. Accordingly, in order to minimise the occurrence of disputes between the PARTIES, it is only logical to control the occurrence at the origin: i.e., the private contracts. This obvious conclusion forms the very foundation of this Proposal, which is designed to prevent the disputes between private parties negotiating a licence agreement involving patent rights and/or know-how.

B. Related Provisions in the TRIPS Agreement

1. Article 8, Para. 2 recognises the need to employ "appropriate measures" in order "to prevent the abuse of intellectual property rights or

the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology."

As one of such appropriate measures, this Proposal envisages a dispute prevention system by way of allowing PARTIES on behalf of their respective undertakings to seek an advisory opinion from the Licence Review Board established and supervised under the aegis of the TRIPS Committee.

2. Article 43.3B provides that:

Each PARTY shall enter, upon request, into consultations with any other PARTY which has cause to believe that an intellectual property right owner that is a national or domiciliary of the PARTY to which the request for consultations has been addressed is undertaking practices in violation of the requesting PARTY's laws and regulations on the subject matter of this Section, and which wishes to secure compliance with such legislations, without prejudice to any action under the law and to the full freedom of an ultimate decision of either PARTY. The PARTY addressed shall accord full and sympathetic consideration to, and shall afford adequate opportunity for, consultations with the requesting PARTY, and shall cooperate through the supply of available information of relevance to the matter in question, subject to and dependent upon the assurances of confidentiality given by the requesting PARTY unless the party providing the information agrees to its disclosure or disclosure is compelled by law.

The above provision contemplates a situation wherein a right holder who is a national or domiciliary of PARTY A is engaged in abusive practices in the territory of PARTY B in violation of the national law of PARTY B.

The above geographical confinement is a built-in limitation for an effective operation of the consultative mechanism. For instance, an agreement for international transfer of technology may not even involve any patents registered in PARTY B or know-how that exists in PARTY B. In this instance, Article 43.3B may not apply.

Furthermore, it is not clear as to what the obligations of PARTY A are; and, in the absence of satisfactory response from PARTY A for whatever reasons, disputes between the PARTIES will likely occur. In short, the efficacy of this provision is highly uncertain, if any.

3. On the other hand, Article 67 authorises the TRIPS Committee to render recommendations and rulings for the settlement of disputes between the PARTIES by way of establishing a panel of experts drawn from an existing roster of experts.

Since the nature of disputes arising out of a particular clause in a patent/know-how licence agreement on the question of an abusive practice is bound to be highly technical, they can be an ideal task for the panel of experts. In other words, the panel of experts envisaged in Article 67 can also be called upon rendering an advisory opinion prior to the occurrence of disputes between the PARTIES.

4. The language contained in Article 71 is broad enough to include, within the scope of the Committee's responsibilities and activities, the assignment of establishing a Licence Review Board and having it issue an advisory opinion on the propriety of a patent/know-how licence agreement, in addition to the promulgation of a Guideline to be used by the Board. Specifically, Article 71, in relevant parts, reads:

The Committee shall ... afford PARTIES the opportunity of consulting on matters relating to trade-related intellectual property rights. It shall carry out such other responsibilities as assigned to it by the PARTIES, and it shall, in particular, provide any assistance requested by them in the context of dispute settlement procedures. In carrying out its functions, the Committee may consult with and seek information from any source they deem appropriate.

In short, the proposed dispute prevention mechanism does not require any other additional personnel or resources than those already envisaged for the purpose of carrying out the dispute settlement.

III. EXPLANATION OF ARTICLE 67 bis

A. Para. 1: Scope of Request

(i) Para. 1. makes it clear that the subject matter for which an advisory opinion is sought is limited to contractual clauses contained in a licence agreement involving patents and/or know-how. In other words, the subject matter does not include a licence agreement of such other IPRs as trademark or copyrights, although they can be an ancillary part of a patent/know-how licence agreement. The provision also excludes non-voluntary licence agreements.

(ii) The request for an advisory opinion is submitted not by the private undertakings but by the PARTIES where the licensor and the licensee reside. This is consistent with the existing procedures for consultations and settlement of disputes under GATT.

This procedural requirement will accord the PARTIES an opportunity to consider the desirability and appropriateness of not only making the request under this Article but also carrying out consultations and cooperation as provided in Article 43.3B.

B. Para. 2: Establishment of Standards for Determination of Abusive Practices

The last sentence of Article 71 mandates the TRIPS Committee to establish, within one year from its first (organisation) meeting, appropriate arrangements for cooperation with WIPO. Para. 2, therefore, contemplates a period of two years as sufficient to formulate and promulgate the Guideline. There are a number of reasons for this relative optimism.

First, in order for the Committee to effectively carry out the settlement of disputes under the mandate of Article 67, they need to employ, in consultation with the panel of experts, certain standards or norms. It is expected that large parts of such standards will be equally applicable to the dispute prevention procedure under Article 67 bis.

Secondly, the existing laws and regulations in various countries that govern the abusive or anti-competitive practices of IPRs are relatively uniform. Especially, the principles established in those countries which have historically administered strict controls over anti-competitive practices, notably the US and the European Community, are of high standards, developed over long periods of time through numerous court decisions applied and tested in a plethora of differing circumstances. It is believed that most, if not all, of these principles can serve as an excellent reference for the establishment of the Guideline.

C. Para. 5: Evolution and Refinement of Standards through Case Law Approach

1. Even though the formulation and "legislation" of legal norms, i.e., the Guideline, may be rather easily accomplished, the task of applying them to an international contract in the context of the TRIPS Agreement will be a totally different matter.

In this connection, the approach taken by the European Community is highly instructive: that is, they have accomplished the harmonisation of not only the IPR statutes but also their interpretation through the case law approach. This case law approach adopted by EC did not go unchallenged, however.

In fact, the fiscal senate of the German Supreme Court held that certain decisions of the European Court of Justice were not binding upon it because the European Court had reached its conclusions by relying on its earlier decisions. However, the German Constitutional Court held that:

development of the law on a case law basis is fully in conformity with European legal traditions because not only had the common law development been in England in this way, but also had Roman Law, German Gemeines Recht and French Administrative Law.

As can be seen above, there is nothing novel in employing a case law approach even in civil law countries: as a matter of fact, the dynamic nature of IPRs together with diverse differences in the culture,

* In re Frau Kloppenburg (1988) CMLR 1. See also John Richards, "10 Years of Substantive Law Development in the European Patent Office," JPTOS, PP320-342 (1989).

philosophy, level of technology and economy of PARTIES makes it a compelling case where the case law approach can be best utilised for harmonising the "law" that will govern the control of abusive practices in international transfer of technologies and its interpretation.

To adopt the stare decisis method, however, publication of written decisions fully supported by reasons therefor is essential. PARTIES should be, therefore, encouraged not to object to the publication of the opinions for an effective development of international law governing anti-competitive practices in exercising industrial property rights.

2. Needless to say, there should be a time limitation for the issuance of the opinion by the Licence Review Board as the private undertakings cannot be kept inactive too long. The current clearance system practiced by EC has a six-month period.

D. Para. 6: National Regimes not Preempted

One possible concern that PARTIES may express might be the preemptive effect of this procedure on their national regime and procedures established for reviewing and approving a licence agreement. In response to such concern, the following comments may be offered.

First, inasmuch as the request to the TRIPS Committee is to be made through the government where the concerned individual undertaking resides, the PARTY has the control or opportunity to consider the desirability and possible consequences which may result from making the request.

Secondly, there are situations where an intervention by the government of the licensee will only produce negative effects on the transfer of technology.

Thirdly, as stated previously, if the patents to be licensed are foreign patents, there is not much that the licensee's government can do, especially when the licensor's government is reluctant to interfere with the licensor's affairs.

Fourthly, the advisory nature of the opinion does not affect in any way for each PARTY to apply its national law, where appropriate, in regulating the licensor's unlawful conduct.

E. Para. 7: Restriction on PARTY's Undue Influence

In order for the TRIPS Agreement to be viable and successful, it must be assumed that the advisory opinion rendered under the auspices of the TRIPS Committee is reasonable and proper. Therefore, it only behoves the PARTIES to encourage their respective undertakings to respect and accept the Committee opinion to the maximum extent possible. Should, however, PARTIES be allowed to stop their willing nationals from adhering to the opinion, the very integrity of the whole TRIPS Agreement may be in jeopardy.