The TRIPS Regime of Trademarks and Designs

By Nuno Pires de Carvalho

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For Ana

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For André, Hugo and Carolina

For Theo and Felipe

FOREWORD

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) entered into force more than ten years ago. Almost all the transitional periods for the implementation of its obligations are now expired. And still there is a general feeling that the TRIPS Agreement is unfinished business. Governments of a number of developing countries, supported by several non-governmental organizations, understand that the TRIPS Agreement was adopted to the detriment of their national interests. Those countries would like to pursue a renegotiation of vast portions of the Agreement. Because the opportunity has not yet come for such renegotiation, an idea of exploring the ambiguities and cracks of the language of the Agreement so as to extract from it the maximum of flexibility has recently arisen on the national level and has been discussed at international fora.

On the other hand, a number of developed countries believe that the time is ripe for seeking additional protection of intellectual property rights that were insufficiently addressed in the TRIPS Agreement. For example, extension of the terms of protection of copyright and patents; broadening the subject matter of patentability and registrability of marks; shifting the thrust of protection of test data from an unfair competition approach towards a proprietary, patent–like regime; establishing a binding system of international registration and protection of geographical indications. All these are ideas that developed countries have been pursuing in the last few years, either through bilateral arrangements or in the context of an expanded TRIPS built-in agenda.

Yes, the TRIPS Agreement is unfinished business. The reason is that the WTO intellectual property standards correspond, like the GATT or the GATS, to a trade-related rationale: higher standards were established in order to increase the access of goods and services produced in developed countries, bearing or embodying intellectual property, to the markets of developing countries; the latter, in their end, accepted such commitments in exchange for an increased access of its agricultural and textile products to the markets of developed countries. The TRIPS Agreement also corresponds to a rationale of foreign direct investment. This does not mean that higher standards of intellectual property lead immediately to an increase in the levels of foreign direct investment. On the contrary, a higher level of protection of foreign intangible assets may persuade their owners not to seek direct business in

developing countries. Instead, they may internalize costs and seek rents by licensing local partners or simply by exporting their products. Strong intellectual property protection will ensure that there will be no free riding by local copiers. But the wave of foreign direct investment in developing countries by developed country-based companies that started after the Second World War, seeking either cheaper factors of production or access to local expanding (emerging) markets, naturally awakened in the shareholders and managers of those companies the wish of recognizing in target countries a more familiar business environment. That wish has operated as a form of pressure for developing countries to accept legal norms and economic institutions that are typical of industrialized economies. Intellectual property has been, naturally, part of that environment, but the spreading of capitalistic institutions into developing economies goes much beyond that. The wave of foreign direct investment (which is behind the "globalization" of the world economy) has been one major driving force for the harmonization of intellectual property, of which the TRIPS Agreement is one result.

The insertion of intellectual property in the social and economic forces that are shaping the world we live in naturally gives rise to a feeling of discomfort in those institutions and governments that were used to see intellectual property as a set of rules with a very narrow scope of protecting honesty and fairness in trade. Intellectual property used to be about authors and inventors. It was about barring access – or giving access – to free riders. The only political dimension that could be envisaged in intellectual property was its use to encourage transfer of technology. Developing countries and multilateral institutions wasted many years in discussing that issue, in the 1960s and 1970s – without, however, any objective or useful conclusion. Nevertheless, in general, the overall debate was reasonably simple, straightforward and predictable. But suddenly, intellectual property came to the forefront of international debate. Its plasticity as a social tool for pursuing major goals of economic development was stressed by the adoption of new, purely trade-related standards.

Yes, the TRIPS Agreement, as an expression of that social tool, is unfinished business. But for that business to be properly carried out, it is of the essence that its thrust, scope and provisions be well understood. One cannot envisage renegotiating the TRIPS Agreement without knowing precisely what it says – and what it does not say. The purpose of this book is exactly that: to explore the meaning of the provisions of the TRIPS Agreement in the fields of trademarks and designs. Another book, with a structure very similar to this one, looks in detail to the provisions concerning patents and test data.*

As an official of the World Intellectual Property Organization I have been involved in the last years with the provision of legal advice to developing countries

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* See Nuno Pires de Carvalho, *The TRIPS Regime of Patent Rights*, 2nd ed., Kluwer Law International, 2005.

as regards the implementation of international obligations under two of the major intellectual property multilateral agreements: the Paris Convention and the TRIPS Agreement. For a certain period, the major concern of developing countries was to seek timely compliance with TRIPS and Paris standards. They would therefore look at TRIPS provisions with an eye on the transitional period deadlines. Their single worry was to be able to attend the TRIPS Council peer-review of TRIPS implementing legislation with their homework done. But as time went by, some developing countries started understanding the dynamics of intellectual property and its core role in the promotion of economic development as an element of good governance. Intellectual property is a legal institution of an intrinsically economic nature: if well used it promotes creation and distribution of wealth. Good use of intellectual property is presided by the same economic principles that deal with private property rights: intellectual property works properly when it reduces transaction costs. Now that the transitional periods for implementing TRIPS obligations are almost over, developing countries started realizing that adopting the standards of TRIPS flatly is not enough: there must be means for putting intellectual property at the service of economic growth.

Therefore, in the last few years new questions were asked on how to use the trade-related intellectual property standards in a manner that is economically relevant for poor countries. Of course, no significant answers can be given if those standards are not well understood. That is exactly what this book seeks to achieve, albeit in the narrow context of trademarks and designs. On the one hand, a great deal of attention is given to the meaning of the TRIPS provisions in question, having in view the intentions of the negotiating parties and their objectives. But, on the other hand, the same deal of attention is given to the ways WTO Members can use the TRIPS apparently rigid provisions as economic tools for promoting their societal objectives. After all, as explained in the Introduction, intellectual property is, and has been, embedded in the fabric of every free, market-oriented economy from the dawn of Civilization. It is not a historic coincidence that the Code of Hammurabi, the first written codification of laws that has reached us, revealed already a concern with private appropriation of knowledge as a mechanism for preventing free riding. Creative and well-off societies cannot be conceived without clear and adequate rules on the appropriation and protection of those intangible assets that serve to differentiate businesses (in a capitalistic or sort-of-capitalistic environment). It is not only a matter of *suum cuique tribuere* (to attribute to each one what belongs to him/her), one of the three legal precepts of the Institutions of Justinianus. It is that, but it also more than that: intellectual property is, ultimately, one of the many components that contribute to the efficient organization of society.

In fact, because intellectual property permits the appropriation of those intangible assets that differentiate businesses, ultimately it serves the most capable firms to increase the extraction of rent from consumers; it protects the creations of those who have the capacity to create and invent; it preserves the market share of firms that

have developed well-known names and brands; it guarantees that the best reputed will not be disparaged by disloyal competitors. Intellectual property can indeed serve the interests of anti-social behavior leading to concentration of wealth and the protection of the strongest. But intellectual property, when properly understood and adequately regulated, is not only about fences around intangible assets: it leaves doors open, or rather, it opens doors that induce competitors to generate and increase rivalry. Intellectual property regimes, when correctly dispensed, are not limited to operate as a tool for the concentration of wealth by the wealthy: they indeed contribute to its distribution.

As a minor, but relevant, editorial note, it should be emphasized that throughout this book the words "trademark" and "mark" are interchangeable. When, for some reason, it is necessary to clearly distinguish between marks for goods (trademarks, *stricto sensu)* and marks for services (service marks), that distinction is clarified. Otherwise, the word "trademarks" is very frequently used with the meaning of both trademarks *stricto sensu* and service marks.

As a matter of course, all views expressed in this book are the author's and not necessarily those of WIPO and/or its Member States.

Geneva, October 16, 2005

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1. DEFINITION AND SCOPE OF INDUSTRIAL PROPERTY

.1. There is a general understanding that intellectual property is a set of legal rules on the private appropriation of the output of human creativity, such as works of authorship and inventions. That understanding is incorrect in the sense that it looks at a very limited dimension of intellectual property. Actually, the scope of intellectual property goes much beyond literary, artistic or technical creations. The names and the reputation of merchants, for example, have nothing to do with creativity. They are nevertheless two of the most important – if not the most important – subject matters of intellectual property. Intellectual property is indeed a broad concept: it is a set of principles and rules that regulate the acquisition, the use, the enforcement and the loss of rights and interests in *differentiating intangible assets* that are susceptible of being used in commerce.

.2. The subject matter of intellectual property is intangible assets. However, it should be stressed that intellectual property does not cover all intangible assets, but only those that serve as elements of *differentiation* between competitors. For example, the rights of credit and other personal obligations are intangible assets, and yet they are not covered by intellectual property law. The reason is that the right of credit of one bank, for example, does not differentiate it from another bank. But its trade name does. Or its knowledge on how better invest the savings of its clients. Actually, it is because intellectual property covers only intangible assets that serve as elements of differentiation that aspects like novelty, originality and distinctiveness are so crucial for its application.

.3. As said, intellectual property does not only protect the results of creativity and ingenuity. Indications of source, the merchants' reputation and trademarks are elements of intellectual property that are not the product of creativity – they are, nonetheless, important as differentiation elements of firms.

.4. Intellectual property comprises two areas: copyright and related rights, on the one hand, and industrial property, on the other. Copyright and related rights are the