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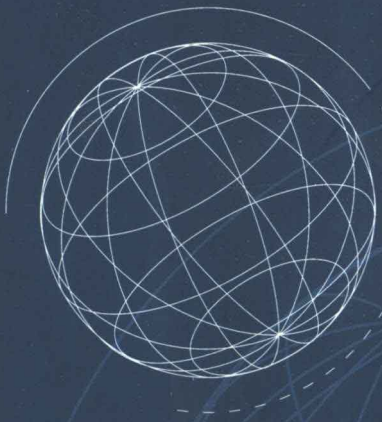

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THE WTO DISPUTE SETTLEMENT REPORTS

The *Dispute Settlement Reports* of the World Trade Organization (the "WTO") include panel and Appellate Body reports, as well as arbitration awards, in disputes concerning the rights and obligations of WTO Members under the provisions of the *Marrakesh Agreement Establishing the World Trade Organization*. The *Dispute Settlement Reports* are available in English, French and Spanish.

This volume may be cited as DSR 1998:I

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Arbitration under Article 21.3(c) of the Understanding on Rules and Procedures Governing the Settlement of Disputes

Award of the Arbitrator
Said El-Naggar
WT/DS27/15

Circulated to Members on 7 January 1998

I. INTRODUCTION

1. On 25 September 1997, the Dispute Settlement Body (the "DSB") adopted the Appellate Body Report[1] and the Panel Reports[2], as modified, in *European Communities - Regime for the Importation, Sale and Distribution of Bananas*, complaint by Ecuador, Guatemala, Honduras, Mexico and the United States (the "Complaining Parties"). On 16 October 1997, the European Communities informed the DSB, pursuant to Article 21.3 of the *Understanding on Rules and Procedures Governing the Settlement of Disputes* (the "DSU"), that it would fully respect its international obligations with regard to this matter.[3] At the same meeting, the European Communities stated that - while intending to act expeditiously - it would, in view of the complexity of the matter at issue, require a reasonable period of time in which to examine all the options to meet its international obligations.[4]

2. On 24 October 1997, the European Communities requested consultations with the Complaining Parties in order to reach agreement on a "reasonable period of time" for the implementation of the recommendations and rulings of the DSB adopted on 25 September 1997. These consultations, however, did not lead to an agreement. The Complaining Parties therefore requested, on 17 November 1997,

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1 WT/DS27/AB/R.

2 Complaint by Ecuador, WT/DS27/R/ECU; Complaint by Guatemala and Honduras, WT/DS27/R/GTM, WT/DS27/R/HND; Complaint by Mexico, WT/DS27/R/MEX; Complaint by the United States, WT/DS27/R/USA.

3 WT/DSB/M/38, p. 3.

4 *Ibid.*

that the "reasonable period of time" be determined by binding arbitration pursuant to Article 21.3(c) of the DSU.[5]

3. In the absence of an agreement between the parties on the appointment of an arbitrator within 10 days after referring the matter to arbitration, the Complaining Parties requested, on 1 December 1997, the Director-General of the World Trade Organization ("WTO") to appoint the arbitrator, as provided for in footnote 12 to Article 21.3(c) of the DSU. After consultation with the parties, the Director-General decided, on 8 December 1997, to appoint me as the Arbitrator.[6] He indicated to the parties that, as a Member of the Appellate Body, I would consult with the other Members of the Appellate Body in accordance with its practice of collegiality.

4. Written submissions were received from the European Communities and the Complaining Parties on 15 December 1997, and an oral hearing was held on 17 December 1997. Consultations with the other Members of the Appellate Body took place on 19 December 1997.

II. ARGUMENTS OF THE PARTIES

A. European Communities

5. In its written submission of 15 December 1997, the European Communities requests the Arbitrator to set a "reasonable period of time", under Article 21.3(c) of the DSU, which would not expire before 1 January 1999, i.e. a period of 15 months and one week. In justification of this request, the European Communities notes that amending the existing EC import regime for bananas, as required by the recommendations and rulings of the DSB, will be a difficult and complex task for a number of reasons.

6. First, the European Communities points out that in amending its import regime for bananas, it will have to strike a difficult balance between the coexisting international obligations under the *Marrakesh Agreement Establishing the World Trade Organization* (the *"WTO Agreement"*) and the Fourth ACP-EC Convention of Lomé (the "Lomé Convention")[7] with the aim of respecting both. Furthermore, the European Communities notes that amending its import regime for bananas will re-open the lengthy discussion between the Member States of the European Union on many of the issues that had been agreed in 1993 when the different national banana markets were transformed into a single Community-wide market.

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[5] WT/DS27/13, G/L/209, 20 November 1997.

[6] WT/DS27/14, 12 December 1997.

[7] Signed in Lomé, 15 December 1989, as revised by the Agreement signed in Mauritius, 4 November 1995.

7. Secondly, the European Communities explains that the amendment of its banana import regime will require setting in motion a complex legislative procedure involving: the European Commission, which has to submit a proposal for the necessary changes; the European Parliament, which will need to give its opinion on the proposed changes; and the Council of the European Union, which will decide on the changes, either by qualified majority or by unanimity, depending on whether or not it follows the proposal of the Commission. The European Communities also notes that once the amended basic legislation is adopted by the Council, the European Commission will still need to adopt implementing legislation to make the new import regime operational.

8. Thirdly, the European Communities refers to the fact that Article 12 of the Lomé Convention imposes a legal obligation on the European Communities to consult the ACP States[8] "where [it] intends ... to take a measure which might affect the interests of the ACP States as far as this Convention's objectives are concerned". This obligation to consult certainly applies, in the view of the European Communities, to an amendment of the banana import regime. The European Communities maintains that its legislative procedure will therefore have to allow enough time to consider the observations made by the ACP States before any final decision on the new banana import regime is taken.

9. Fourthly, the European Communities notes that under its administrative practice, any change in legislation which directly affects the customs treatment of products in connection with importation or exportation, enters into force either on 1 January or 1 July of the relevant year. This practice reflects, according to the European Communities, internal management needs and the economic interests of the operators on the market to operate under orderly and predictable procedures.

10. Finally, the European Communities argues that an advance notice with a reasonable lead time of any major changes in legislation should be given to permit those involved in the banana supply chain to make the necessary adjustments to their planning and logistics.

11. The European Communities notes that, for all the above reasons, the "reasonable period of time" it proposes is already a tight schedule that will require a great deal of discipline and cooperation together with a constructive approach at all levels.

12. At the oral hearing on 17 December 1997, the European Communities made it clear that the "reasonable period of time" it requests, i.e. until 1 January 1999, is for the purpose of implementing all the recommendations and rulings of the DSB adopted on 25 September 1997 in *European Communities - Regime for the Importation, Sale and Distribution of Bananas.*

[8] The term "ACP States" refers to the African, Caribbean and Pacific States which are parties to the Lomé Convention.

B. Complaining Parties

13. The Complaining Parties note that their request to determine the "reasonable period of time" through binding arbitration followed extensive attempts to reach an agreement with the European Communities on this matter, and that these attempts failed because the European Communities was unwilling to confirm that it intends to use the "reasonable period" in order to fully implement the recommendations and rulings of the DSB. The Complaining Parties argue that a "reasonable period of time", within the meaning of Article 21.3(c), is a limited right that arises only for the purpose of implementation. In their opinion, a defending Member which refuses to state its intention to implement the relevant DSB recommendations and rulings should not be entitled to a "reasonable period of time". The Complaining Parties believe that of all the "particular circumstances" which an arbitrator should consider when deciding on a "reasonable period of time", the most important must be whether a Member has stated its intention to comply with the recommendations and rulings of the DSB. Accordingly, the Complaining Parties argue that the Arbitrator should conclude that the European Communities is not entitled to the "reasonable period of time", provided for in Article 21.3(c), since it has not clearly indicated its intention to fully implement the recommendations and rulings of the DSB.

14. In their written submission of 15 December 1997, the Complaining Parties argue, in the alternative, that even if in the course of the arbitration proceedings the European Communities would state its intention to implement the recommendations and rulings of the DSB, the "reasonable period of time" of 15 months and one week, requested by the European Communities, is excessive. They submit that the European Communities overstates the period of time needed to implement the recommendations and rulings of the DSB. The Complaining Parties note that most banana measures found to be WTO-inconsistent were implemented through Commission regulations, which can be amended through simple and rapid procedures, separate from the amendment of Regulation 404/93 on the common organization of the market in bananas, which requires action by the Council. Furthermore, the Complaining Parties note that it took the European Communities less than six months to adopt Council Regulation 404/93 after the European Commission had submitted its proposal to the Council. According to them, the current task of amending Regulation 404/93 to make it WTO-consistent is far less challenging than it was to adopt that Regulation in 1993 in the first place. Finally, the Complaining Parties submit that the European Commission often prepares implementing legislation while its proposal for basic legislation is still pending before the Council. Thus, the adoption of implementing legislation by the Commission, they argue, can be carried out shortly after the adoption of the basic legislation by the Council.

15. The Complaining Parties submit that the assertion by the European Communities that the "controversial" nature of the issue requires a more prolonged procedure should be disregarded. In their opinion, an arbitrator's enquiry must avoid the issue of what implementation period would be acceptable to domestic political constituencies, and examine instead the "practicable" time needed to

accomplish the legislative and regulatory changes involved. Under the circumstances of this case, the Complaining Parties argue that full implementation of the recommendations and rulings of the DSB is "practicable" by 1 July 1998, i.e. within nine months.

16. Ecuador, Guatemala, Honduras and Mexico also argue that Articles 21.2, 21.7 and 21.8 of the DSU require that special attention be paid to matters affecting the interests of complaining developing country Members with respect to measures that have been subject to dispute settlement. In their reply to my question, whether the interests of other developing countries, and in particular the banana producing ACP States, were not also affected, Ecuador, Guatemala, Honduras and Mexico maintained that their interests carry greater weight since they are requesting the implementation of a WTO-consistent import regime. Finally, the developing country Complaining Parties point out that the country allocations and export certificates provided for in the Framework Agreement on Bananas[9] were implemented by Commission, not Council, regulation and could, therefore, be amended easily.

17. In its closing remarks at the oral hearing, the United States, speaking on behalf of the Complaining Parties, noted the statement made by the European Communities during the oral hearing that it intends to implement all the recommendations and rulings of the DSB within the "reasonable period of time" it has requested, i.e. by 1 January 1999.

III. AWARD

18. Article 21.1 of the DSU stipulates that "prompt compliance with recommendations or rulings of the DSB is essential in order to ensure effective resolution of disputes to the benefit of all Members". This obligation is further elaborated in Article 21.3 of the DSU, where it is provided that "[i]f it is impracticable to comply immediately with the recommendations and rulings, the Member concerned shall have a reasonable period of time in which to do so". When the "reasonable period of time" is determined through binding arbitration, as provided for under Article 21.3(c) of the DSU, this provision states that a "guideline" for the arbitrator should be that the "reasonable period of time" should not exceed 15 months from the date of the adoption of a panel or Appellate Body report. Article 21.3(c) of the DSU also provides, however, that the "reasonable period of time" may be shorter or longer than 15 months, depending upon the "particular circumstances".

19. The Complaining Parties have not persuaded me that there are "particular circumstances" in this case to justify a shorter period of time than stipulated by the guideline in Article 21.3(c) of the DSU. At the same time, the complexity of

[9] *Marrakesh Protocol to the General Agreement on Tariffs and Trade 1994*, Schedule LXXX - European Communities, pp. 16373-16377.

the implementation process, demonstrated by the European Communities, would suggest adherence to the guideline, with a slight modification, so that the "reasonable period" of time for implementation would expire by 1 January 1999.

20. Therefore, I conclude that, pursuant to Article 21.3(c), the "reasonable period of time" for the European Communities to implement the recommendations and rulings of the DSB adopted on 25 September 1997 in *European Communities - Regime for the Importation, Sale and Distribution of Bananas*, shall be the period from 25 September 1997 to 1 January 1999.

INDIA - PATENT PROTECTION FOR PHARMACEUTICAL AND AGRICULTURAL CHEMICAL PRODUCTS

Report of the Appellate Body
WT/DS50/AB/R

Adopted by the Dispute Settlement Body
on 16 January 1998

India, *Appellant*	Present:
United States, *Appellee*	Lacarte-Muró, Presiding Member
European Communities,	Bacchus, Member
Third Participant	Beeby, Member

I. INTRODUCTION

1. India appeals from certain issues of law and legal interpretations in the Panel Report, *India - Patent Protection for Pharmaceutical and Agricultural Chemical Products*[1] (the "Panel Report"). The Panel was established to consider a complaint by the United States against India concerning the absence in India of either patent protection for pharmaceutical and agricultural chemical products under Article 27 of the *Agreement on Trade-Related Aspects of Intellectual Property* (the "*TRIPS Agreement*"), or of a means for the filing of patent applications for pharmaceutical and agricultural chemical products pursuant to Article 70.8 of the *TRIPS Agreement* and of legal authority for the granting of exclusive marketing rights for such products pursuant to Article 70.9 of the *TRIPS Agreement*. The relevant factual aspects of India's "legal regime"[2] for patent protection for pharmaceutical and agricultural chemical products are described at paragraphs 2.1 to 2.12 of the Panel Report.

2. The Panel Report was circulated to the Members of the World Trade Organization (the "WTO") on 5 September 1997. The Panel reached the following conclusions:

> On the basis of the findings set out above, the Panel concludes that India has not complied with its obligations under Article 70.8(a) and, in the alternative, paragraphs 1 and 2 of Article 63 of the TRIPS Agreement, because it has failed to establish a mechanism that adequately preserves novelty and priority in respect of appli-

[1] WT/DS50/R, 5 September 1997.
[2] WT/DS50/4, 8 November 1996.

> cations for product patents in respect of pharmaceutical and agricultural chemical inventions during the transitional period to which it is entitled under Article 65 of the Agreement, and to publish and notify adequately information about such a mechanism; and that India has not complied with its obligations under Article 70.9 of the TRIPS Agreement, because it has failed to establish a system for the grant of exclusive marketing rights.[3]

The Panel made the following recommendation:

> The Panel recommends that the Dispute Settlement Body request India to bring its transitional regime for patent protection of pharmaceutical and agricultural chemical products into conformity with its obligations under the TRIPS Agreement ...[4]

3. On 15 October 1997, India notified the Dispute Settlement Body[5] (the "DSB") of its intention to appeal certain issues of law covered in the Panel Report and legal interpretations developed by the Panel, pursuant to paragraph 4 of Article 16 of the *Understanding on Rules and Procedures Governing the Settlement of Disputes* (the "DSU"), and filed a Notice of Appeal with the Appellate Body, pursuant to Rule 20 of the *Working Procedures for Appellate Review* (the "*Working Procedures*"). On 27 October 1997, India filed an appellant's submission.[6] On 10 November 1997, the United States filed an appellee's submission pursuant to Rule 22 of the *Working Procedures*. That same day, the European Communities filed a third participant's submission pursuant to Rule 24 of the *Working Procedures*. The oral hearing provided for in Rule 27 of the *Working Procedures* was held on 14 November 1997. At the oral hearing, the participants and third participant presented their arguments and answered questions from the Division of the Appellate Body hearing the appeal.

II. ARGUMENTS OF THE PARTICIPANTS

A. Appellant - India

4. India appeals certain aspects of the legal findings and conclusions of the Panel relating to Articles 70.8, 70.9 and 63 of the *TRIPS Agreement*. India asserts that it has established, through "administrative instructions"[7], "a means" by which applications for patents for pharmaceutical and agricultural chemical products (often referred to as "mailbox applications") can be filed and filing dates assigned to them. India contends that, as of 15 October 1997, 1924 such applications had been received, of which 531 were by United States' applicants.

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3 Panel Report, para. 8.1.
4 Panel Report, para. 8.2.
5 WT/DS50/6, 16 October 1997.
6 Pursuant to Rule 21(1) of the *Working Procedures*.
7 India's appellant's submission, p. 10.

Upon receipt, the particulars of these applications, including serial number, date, name of applicant, and the title of the invention were published in the Official Gazette of India. None of these applications had been taken up for examination, and none had been rejected. On 2 August 1996, the Government had stated in Parliament: "The Patent Offices have received 893 patent applications in the field of drug or medicine from Indian or foreign companies/institutions until 15 July 1996. The applications for patents will be taken up for examination after 1 January 2005, as per the World Trade Organization (WTO) Agreement which came into force on 1 January 1995".[8]

5. India argues that the function of Article 70.8(a) of the *TRIPS Agreement* is to ensure that the Member concerned receives patent applications as from 1 January 1995 and maintains a record of them on the basis of which patent protection can be granted as from 2005. India asserts that the Panel ruled that Article 70.8(a) comprises two obligations: first, to establish a mailbox to receive patent applications for pharmaceutical and agricultural chemical products and to allot filing and priority dates to them; and second, to create legal certainty that the patent applications and the patents based on them will not be rejected or invalidated in the future. India maintains that the second obligation is a creation of the Panel.

6. India asserts that the Panel justified the creation of this second obligation by invoking the concept of predictability of competitive relationships that was developed by panels in the context of Articles III and XI of the GATT 1947. India contends that this concept cannot be unquestioningly imported into the *TRIPS Agreement*. Furthermore, the Panel used this concept to advance the date on which India must give substantive rights to inventors of pharmaceutical and agricultural chemical products. Thus, India concludes, the Panel incorporated into the procedural requirements of Article 70.8(a) the substantive obligations set out in paragraphs (b) and (c) of Article 70.8 and turned an obligation to be carried out in the future into a current obligation.

7. India asserts that the means of filing provided by India ensures that patents can be granted when they are due. According to India, there is absolute certainty that India can, when patents are due in accordance with paragraphs (b) and (c) of Article 70.8, decide to grant such patents on the basis of the applications currently submitted and determine the novelty and priority of the inventions in accordance with the date of these applications. India insists that there is no logical link between the theoretical refusal of a mailbox application under current law and the grant of a patent in accordance with paragraphs (b) and (c) of Article 70.8 in the future.

8. According to India, the Panel interpreted into the *TRIPS Agreement* the requirement that a Member must eliminate any reasonable doubts that it has met the requirements set out in that Agreement. To India, the Panel's interpretation of

[8] See Panel Report, Annex 2.

Article 70.8(a) entails a violation of established principles governing the burden of proof.

9. India argues that the effect of the Panel's shift in the burden of proof from the complainant to the defendant was exacerbated by the standard of proof which the Panel applied to the evidence submitted by India to demonstrate that the United States' assertion was based on an incorrect interpretation of Indian law. In India's view, the Panel did not assess the Indian law as a fact to be established by the United States, but as a law to be interpreted by the Panel. According to India, the Panel's initiative contrasts with the cautious approach of previous panels to issues of municipal law.[9] The Panel should have followed GATT practice and given India, as the author of the mailbox system, the benefit of the doubt as to the status of that system under its domestic law. The Panel also should have sought guidance on the manner in which the Indian authorities interpreted that law. India contends that the assertion by a Member that a mailbox system exists, and that it has been set up in accordance with its domestic law, may be displaced only by compelling evidence that the mailbox is illegal in domestic law: it is essentially for the Member itself to determine the methodology by which it sets out the mailbox system in terms of its municipal laws.

10. India argues that the text of Article 70.9 establishes the obligation to provide exclusive marketing rights to a pharmaceutical or agricultural chemical product for which a patent application has been made only after the events specified in the provision have occurred. India maintains that there is nothing in the text of Article 70.9 that creates an obligation to make a system for the grant of exclusive marketing rights system generally available in the domestic law before the events listed in Article 70.9 have occurred.

11. In India's view, the Panel did not examine the context of Article 70.9 fully. There are many provisions in the *TRIPS Agreement* - including Articles 22.2, 25.1, 39.2, 42-48 and 51 - which explicitly oblige Members to change their domestic law to authorize their domestic authorities to take certain actions before the need to take such actions actually arises. India also notes that a comparison of the terms of Article 70.9 with those of Article 27, according to which "patents shall be available" for inventions, is revealing. According to India, the Panel examines Article 70.9 only in the context of Article 27, and dismisses the relevance of the distinction between "shall be available" and "shall be granted" in the wording of these related provisions because "an exclusive marketing right cannot be 'granted' in a specific case unless it is 'available' in the first place".[10]

12. India maintains that Article 70.9 is part of the transitional arrangements of the *TRIPS Agreement* whose very function is to enable developing countries to

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[9] India cites Panel Report, *Canada - Measures Affecting the Sale of Gold Coins*, L/5863, 17 September 1985, unadopted, paras. 58 and 59; and Panel Report, *United States - Measures Affecting the Importation, Internal Sale and Use of Tobacco*, adopted 4 October 1994, DS44/R, para. 75.

[10] Panel Report, para. 7.56 and note 112.

postpone legislative changes. Patent protection for pharmaceutical and agricultural chemical products is the most sensitive TRIPS issue in many developing countries. To India, the Panel's interpretation of Article 70.9 has the consequence that the transitional arrangements would allow developing countries to postpone legislative changes in all fields of technology except in the most sensitive ones.

13. In India's view, the Panel did not base its interpretation on the terms of Article 70.9, nor did it take into account the context and the transitional object and purpose of this provision; instead, the Panel justified its expansive approach with the need to establish predictable conditions of competition. India contends that this notion turns an obligation to take actions in the future into an obligation to take action immediately. India notes that there are numerous transitional provisions in the *Marrakesh Agreement Establishing the World Trade Organization* (the "*WTO Agreement*")[11] that require action at some point in the future, either when a date has arrived or an event has occurred. These are all obligations that are, just like those under Article 70.8 and 70.9 of the *TRIPS Agreement*, contingent upon a date or event. While it would be desirable if all Members were immediately to enable their executive authorities to take the required actions even before the dates or events requiring those actions have occurred, India asserts that these provisions cannot reasonably be interpreted to imply the obligation to provide for such conditions in the domestic law in advance of that date or event.

14. India asserts that, under Articles 3, 7 and 11 of the DSU, panels are to make findings and recommendations only on matters submitted to them by the parties to the dispute. India therefore contends that the Panel exceeded its authority under the DSU by ruling on the subsidiary claim by the United States relating to Article 63 after accepting its principal claim under Article 70.8. If the Appellate Body were to conclude that the Panel was entitled to present findings on the United States' Article 63 claim, India asks whether the Panel was entitled to recommend simultaneously that India bring its mailbox system into conformity with Article 70.8(a) and Article 63 of the *TRIPS Agreement*. If the Panel was so entitled, India further asks the Appellate Body to what the recommendation relating to Article 63 refers.

B. Appellee - United States

15. The United States endorses the legal findings and conclusions of the Panel relating to Articles 70.8, 70.9 and 63 of the *TRIPS Agreement*. The United States asserts that the Panel correctly analyzed the text and context of Article 70.8, and focused on the failure of the system described by India to achieve the object and purpose of this provision. The United States contends that the concept of the importance of creating the predictability needed to plan future trade was developed in the context of Articles III and XI of the GATT 1947, as the Panel observed.

[11] Done at Marrakesh, Morocco, 15 April 1994.