KLUWER LAW INTERNATIONAL

The Trips Regime of Patent Rights

3rd Edition

By Nuno Pires de Carvalho

Wolters Kluwer
Law & Business

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FOREWORD

Inventions may be made by individuals or groups of individuals, but, as Fernand Braudel wrote, it is society that commands inventive activities.[1] Indeed, inventors more often than not respond to society's demands. When they do not, they must persuade society of their inventions' worth; otherwise, as happens with most inventions made by dreamers, they remain forgotten in the corner of a garage. This is the social construction of inventions. The inventors invent, but it is society that construes the inventions' value. Therefore, it is social value that expresses the interest of a certain invention to society. Social value is determined by the combination of two mechanisms, which may eventually operate in a reciprocally containing manner. The first mechanism is use. The more that society uses a certain invention, the higher its (social) value is. The second mechanism is alternation and competition. The more an invention originates, by means of emulation and competitive invention, alternative technological solutions for the same problem, the more valuable that invention for society is. The evolution of the patent system can be characterized as a struggle for the capture of that social value. Society puts an invention to frequent use when it appreciates that invention. However, the inventor will do anything within his or her power to prevent alternate inventions, because they diminish the economic value of his or her asset to the extent that they reduce scarcity. Extending the life of a patent by means of minor increments and eliciting the obligation to describe an invention are two of several means of avoiding competitive inventions.

The evolution of intellectual property, both at the national and international levels, since the dawn of time, can be described as a pendulum in search of constant equilibrium. At one of the extremes, there is the individual (or the private entity) who creates and/or acquires an intangible asset with the purpose of using it as an element of differentiation vis-à-vis his or her competitors and clients. He or she will go to great lengths so that the pendulum sways farther to his or her side and makes him or her capture the largest share possible of the social value of the asset. At the other extreme, there is society, which expects to take as much social value from that same asset as possible. The pendulum moves between these forces. When the individual is able to capture all the social value of the asset or a great part of that value, society leans toward denying protection or reducing its significance. Indeed, if society has nothing to gain from the asset, it does not have any interest in granting recognition and enforceability to it. However, when society is able to get all the value of the asset or a large part of it, the individual is not spurred to continue risking his or her resources to create and/or acquire differentiating intangible assets, and he or she goes elsewhere in search of better opportunities for gain.

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[1] Fernand Braudel, *Civilisation Matérielle, Economie et Capitalisme – XV^e–XVIII^e Siècles*, vol. I, Les Structures du Quotidien, at 489 (Armand Colin, Paris, 1979).

The Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement is an expression of the pendulum's swaying. In 1994, the pendulum moved far onto the side of private holders. It was a bold move after a long period in multilateral relations, under the aegis of the Paris Convention, that permitted free riding of foreign inventions to a great extent. Indeed, under the Paris Convention, Contracting Parties were obliged to protect the inventions of other Members' citizens only if they protected those of their own nationals. Figuratively speaking, the Paris Convention operated as a card game, the rules of which permitted players to harm competitors but provided that they first harmed themselves. The problem with this rule was that things worked reasonably well while Members had similar interests and their national rules of patent protection were equivalent; however, during the course of the twentieth century, a growing number of developing countries did not mind harming their own national citizens for the sake of being permitted to free ride on foreign inventions. This was particularly true in the field of pharmaceutical products. Several attempts to overcome asymmetries in national protection of inventions failed, the last one being a proposal to adopt a treaty supplementing the Paris Convention in the late 1980s – in parallel, thus, with the Uruguay Round of negotiations conducted within the framework of the General Agreement on Tariffs and Trade (GATT). However, GATT Contracting Parties found the only way possible to solve what certain developed countries saw as an unfair situation: to change the trump suit of the game. Instead of using the patent system as a tool for access to and transfer of technology, as the United Nations (UN) Secretary-General Report of 1964 had found, the GATT transformed patent protection (and a vast area of intellectual property) into a bargaining chip for access to foreign markets.

The TRIPS Agreement is, therefore, the outcome of a vast gamble that reflects two new rules of the intellectual property multilateral system. The first rule is, 'If a country wants to export its agricultural and textile products to another, it must be ready to import from the latter its products bearing intellectual property.' The second principle is, 'It does not matter that a country harms its own citizens; it still must protect the inventions of the citizens of other countries.'

Since 1994, the new rules of the game have been put to the test, both at the multilateral and the national levels, but some of the perplexities that presided over its inception remain. The main perplexity is linked to discriminatory treatment of technological fields – the very reason for the existence of the TRIPs Agreement. Even though the core provision of the Agreement (Article 27) professes that patent protection should be granted and made available without discrimination to the field of technology, the debates on the impact of patents on access to pharmaceuticals have not ceased. The idea of using the patent system to monitor legitimate access to and collection of genetic resources has been insistently raised. Also, in recent years, in the context of global climate change, there have been attempts to extend these same discussions to the field of green technology.

These – along with debates on the Development Agenda of the World Intellectual Property Organization (WIPO) – may be seen as expressions of a deep discomfort with the significant swaying of the pendulum towards private interests, but the truth is that

the impact of a major shift in the mechanisms to protect inventions can be perceived only in the course of several decades, if not centuries – not in ten or even fifteen years. It is indeed too early to assess the real impact of the new standards of intellectual property protection on economic development or on the success of national industrial policies – other than its good use as a bargaining chip in international trade. For this reason, recent suggestions that the multilateral system of patent protection would not be adequate to accommodate new modalities of doing business and, specially, of protecting the results of new forms of collaborative research (such as open innovation), reveal a lack of a historical perspective. In its essence, today's patent system is not different from the one that emerged from the French Revolution, when it ceased to protect inventors' and introducers' essential right – the right to use (as an exception to the guilds' regime) – and instead became a right to exclude. By eliminating the guild system, the prevailing economic system was (and is) one of free exploitation of industry and trade. It is not probable that this will change in the near future. Therefore, adaptations of the patent system to certain technologies or to technical and social environments will not go beyond some fine-tuning or calibration of rights and obligations.

However, if a historical perspective of the TRIPS Agreement as a tool of development or as a tool of dependency is denied to us, it is still possible, from the close perspective in which we find themselves, to analyse its provisions, their meanings, and their implementation.

This third edition contains a number of corrections and updates as compared to the previous versions. It also contains a long commentary on Article 39. The reason for including a discussion on trade secrets and test data is because of the adoption by a growing number of WTO Members of the so-called linkage mechanism under which regulatory agencies are bound not to issue marketing approvals of generic products while they are covered by third parties' patents. This means that the patent regime has become subsidiary to market exclusivity, or vice-versa, by contrast with the thrust of Article 39.3, which is to accord protection to test data in their own right. This theme raises a number of issues that are not only of a political nature, which justifies a deep dive into that provision.

Because of its origins and main purpose – to prohibit free riding on inventions made in developed countries – the TRIPS Agreement is a controversial treaty, exactly in the same way as the Paris Convention was thirty years ago. This book, like the previous editions, does not avoid the controversies. Actually, it delves into a number of new ones. However, no commentator can fulfil the ambition to scrutinize the TRIPS Agreement and to issue views on its interpretation without making controversial assertions. I am therefore under the obligation to stress that all opinions expressed in this book are exclusively my responsibility, and they do not necessarily reflect the views of the organizations with which I was or am affiliated (the WTO and the WIPO) or their Members.

Geneva,
5 December 2009

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INTRODUCTORY NOTE

THE LEGAL STRUCTURE AND THE ECONOMIC NATURE OF INTELLECTUAL PROPERTY

IN.1. The protection and enforcement of intellectual property rights promote competition. This assertion may sound strange to some readers, yet pro-competitiveness lies at the core of all branches of intellectual property. Indeed, it is commonly accepted that it is in the nature of intellectual property rights to convey monopoly power. Ownership of intellectual property, therefore, would generate market power per se. It is also very frequently said that intellectual property is a necessary evil to the extent that society has not yet found an alternative mechanism that promotes the creation and economic circulation of intangible assets without generating such market power. Generally, monopoly power is associated with patents, but it is not rare to see that same association with other branches of intellectual property, such as copyrights and trademarks. Actually, that is a basic misconception, which cannot be attributed to laypersons exclusively. A number of well-known economists, who would naturally be supposed to have a more sophisticated understanding of intellectual property, have expressed the same incorrect view.[1] It should not come as a surprise, then, that policy makers,

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[1] See, *e.g.*, Joseph E. Stiglitz and Andrew Charlton, *Fair Trade for All – How Trade Can Promote Development* (Oxford Univ. Press, New York, 2005):

> Intellectual property provides innovators with temporary monopoly power. Monopoly power always results in an economic inefficiency. There is accordingly a high cost of granting even temporarily monopoly power, but the benefit is that by doing so, greater motivation is provided for inventive activity.

Id., at 141. See also Lawrence Anthony Sullivan, *Handbook of the Law of Antitrust* (West Publ., St. Paul, 1977):

> Let there be no pretense that the patent system is not in potential collision with antitrust. It clearly is. Suppose a firm accumulates enough patents to control a market ....

Id., at 505. Prof. Sullivan's supposition overlooks a basic enquiry: how many firms are able to accumulate enough patents to control a market? A very few, only. The answer is that those firms are less than the number of firms that accumulate enough real estate to control the market of apartments and houses in a city, because technology, unlike land, is not naturally scarce. Would Prof. Sullivan suggest that property rights in real estate are in potential collision with antitrust? The mistake by Stiglitz and Sullivan is that they do not understand that the monopoly power of patent owners does not arise from the fact they own patents (as a barrier to entry, patents are a very weak one, because the research exception makes it easy for competitors to enter the market of the patented product – if such specific and narrow market exists), but from the fact that they own unique technologies. Uniqueness does not arise from the patent system, for patented technologies compete very often with other patented as well as off-patent technologies. Uniqueness arises from the head start, that is, the time advantage that a pioneer has over his or her competitors. However, it is in the very nature of the patent system to permit (and indeed promote) competitors to 'alter-invent' or 'invent around' the first invention. This is not possible with real estate,