

# Bilateral agreements and a TRIPS-plus world: *the Chile-USA Free Trade Agreement*

*Pedro Roffe*



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### **About these papers**

In these issues papers, the author examines a subject of importance in the developing international intellectual property regime and highlights the key issues arising. The topics have been chosen following consultations with negotiators from developing countries and respond to their concerns. The papers arise out of collaborative work between the Quaker International Affairs Programme in Ottawa and the Quaker United Nations Office in Geneva. Our aim is to contribute to a greater understanding of the impact of changes in this area upon people's lives and better inform debate and negotiations.

### **About the author**

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The views expressed in this paper are those of the author and do not necessarily reflect the views of the Quaker International Affairs Programme (QIAP) or any organisations mentioned in this work.

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# Summary

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This paper focuses on the Free Trade Agreement between Chile and the United States of America (USA) (hereinafter, the FTA)<sup>1</sup>. The FTA is composed of 24 chapters, dealing with broad aspects of trade, including general provisions establishing a free trade zone between the two countries, definitions, administrative aspects, settlement of disputes and specific chapters dealing with standards in areas such as market access, services, investment, telecommunications and intellectual property (IP). Chapter 17 refers to IP. It begins with a general preamble and is followed by 12 sections dealing, respectively, with general provisions, trademarks, domain names on the internet, geographical indications, copyright, related rights, obligations common to copyright and related rights, protection of encrypted program-carrying satellite signals, patents, measures related to certain regulated products, enforcement of intellectual property rights and final provisions.

It is not the intention of this paper to make an evaluation of the impact of the FTA Chapter on intellectual property rights (IPRs). Its purpose is to contribute to a better understanding of TRIPS-plus issues, the specific contents of the FTA and the lessons that could be drawn from the negotiations between the most powerful and technologically advanced country in the world – with clear stakes in IPRs – and a small and dynamic developing country that has one of the most open and liberal economies of the Americas.

The two countries came prepared to the negotiations. The US position on trade liberalization and IP issues was well known to its counterpart. More precisely, the Trade Promotion Authority (TPA) provided broad negotiating parameters that are transparent and to the point. Moreover, the bilateral treaty between the USA and Jordan constituted an important precedent for future negotiations concerning IPRs.

Since the restoration of democracy, Chile has followed a consistent and multidimensional strategy of trade liberalization. Of Latin American countries, it has promoted one of the most active policies of bilateral trade agreements during the 1990s, based on both foreign policy and economic considerations<sup>2</sup>. Its bilateral trade policy has not been limited to the Americas but has expanded to major partners in Europe and recently to Asia (South Republic of Korea<sup>3</sup>, India, and China).

On IP issues, in the early 1990s Chile was the first Latin American country that amended its domestic law to limit the

exclusions from patentability particularly for pharmaceutical products. It also adhered to a number of IP multilateral treaties. Chile also included in its bilateral trade agreements with Mexico, European Free Trade Association (EFTA) and the European Union (EU), which preceded the FTA, important chapters dealing with IP. However, as noted in this study, the FTA is unprecedented in many aspects particularly with respect to the Agreement on Trade-Related Aspects of Intellectual Property Rights (hereinafter, “TRIPS” or “the TRIPS Agreement”).

The FTA builds on the international architecture of IPRs. It establishes as a major principle that nothing in the Agreement derogates from the obligations and rights of the Parties by virtue of TRIPS or other multilateral IP agreements administered by the World Intellectual Property Organization (WIPO) (hereinafter referred to as the “non-derogation principle”). It enshrines the national treatment principle of non-discrimination between nationals of the two countries and, as a consequence of the most-favoured nation clause in TRIPS, the advantages, benefits, privileges granted by the FTA are automatically accorded to the nationals of all other Members of the World Trade Organization (WTO).

Because of the principle of non-derogation, the FTA does not deal with all IPR-related subject matters. It focuses on a few but important ones. It contains detailed provisions on issues not dealt with at all in TRIPS such as domain names on the Internet, related rights of performers and producers of phonograms, remedies against the circumvention of effective technological measures, effective legal remedies to protect rights management information and protection of encrypted program-carrying satellite signals. In traditional areas already covered by TRIPS, it expands the coverage of trademarks and the protection of pharmaceutical products.

On copyright, the FTA, contrary to other bilateral agreements signed by the USA, makes a distinctive difference between copyright and related rights reflecting the different legal systems prevailing in the two countries. In this area, one major development relates to the expansion of the terms of protection that in the case of Chile results in an extension for most works to 70 years compared to 50 under TRIPS.

For pharmaceutical products, it expands protection by different means, including:

- the reinforcement of the provisions on marketing and sanitary approvals;

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<sup>1</sup> For the full text of the agreement in English and Spanish see <http://www.ustr.gov/new/fta/Chile/final/>

<sup>2</sup> Saez et al, 1999

<sup>3</sup> The Republic of Korea made its first bilateral trade agreement ever with Chile in March 2004

- the adjustment of the term of the patent to compensate for unreasonable delays in its granting;
- the prohibition of the use of undisclosed information about the safety and efficacy of pharmaceutical products for 5 years from the date of its marketing or sanitary approval;
- the extension of the patent term to compensate for unreasonable curtailment of the patent term as a result of marketing approval; and finally,
- the granting of marketing approval to third parties requires the consent or acquiescence of the patent owner.

During the negotiations of the FTA, the provisions affecting pharmaceutical products were the subject of intense discussions as they took place almost simultaneously with the WTO deliberations on TRIPS and access to medicines.

The study is divided into five parts:

**part one** provides the general background to the bilateral free trade agreement between Chile and the USA by reviewing the main antecedents and the respective national policies of each country on trade liberalization and IP issues;

**part two** analyses the objectives, scope of application and general principles;

**part three** looks at the substantive IP standards incorporated in the FTA by comparing them with the TRIPS Agreement and recent bilateral trade agreements signed by the USA;

**part four** considers the enforcement and settlement of disputes provisions of the FTA; lastly,

**part five** concludes with final remarks.

# 1. General background to the FTA

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## 1.1 Antecedents

In the early 1990s, Chile and the United States of America (USA) started discussions on the possibility of launching negotiations on a free trade agreement. At that time, the Uruguay Round was not yet completed, so the possibility of considering higher standards of protection on intellectual property (IP) was not in the mind of the negotiators. During the first stages of the discussions Chile was mainly concerned with the impact on its domestic legislation of eventually joining the North American Free Trade Agreement (NAFTA)<sup>4</sup>.

For more than 10 years, economic and legal information was exchanged between Chile and the USA on different aspects of a possible trade agreement including on intellectual property rights (IPRs). Different alternatives and forms of association were considered and analyzed, including the possibility of Chile becoming part of NAFTA<sup>5</sup> and some exploratory meetings were held jointly with Mexico and Canada. Those early attempts did not make progress and were overtaken by

events.

Intensive discussions were resumed in late 2000 after Presidents Ricardo Lagos and William J. Clinton agreed to launch negotiations on 29 November 2000. Both delegations held a series of 14 negotiating rounds with teams of specialists alternating between Chile and the USA.

Parallel to those developments three external factors played a role in the FTA negotiations: namely, the launching of the Doha Development Round at the World Trade Organization (WTO); the regional negotiations for a Free Trade Area of the Americas (FTAA); and the enactment of the Trade Promotion Authority (TPA)<sup>6</sup> in the USA.

In effect, simultaneously with the bilateral negotiations of the FTA, the WTO's Council for Trade-Related Aspects of Intellectual Property Rights (hereinafter, "TRIPS" or the "TRIPS Agreement") embarked on the implementation of paragraph 6 of the Doha Ministerial Declaration on Public Health of 14 November 2001<sup>7</sup>. Those discussions influenced the pace of the negotiating process and its eventual outcome.

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<sup>4</sup> The North American Free Trade Agreement (NAFTA) is a regional agreement between the Government of Canada, the Government of the United Mexican States and the Government of the United States of America to implement a free trade area which entered into force in January 1994. See NAFTA

<sup>5</sup> According to Article 2205.1, NAFTA, "Any coun-

try or group of countries may accede to this Agreement subject to such terms and conditions as may be agreed between such country or countries and the Commission and following approval in accordance with the applicable approval procedures of each country."

<sup>6</sup> The Bipartisan Trade Promotion Authority, also known as the TPA, is part of the Trade Act of

2002. It was passed in 2002, eight years after the last TPA (then known as fast-track) had expired. See [www.tpa.gov](http://www.tpa.gov) and discussions below

<sup>7</sup> Paragraph 6 deals with the issue of countries with insufficient capacity or no capacity to manufacture drugs. See UNCTAD-ICTSD, *Policy Paper*, Chapter 6

At the regional level both Chile and the USA were active participants in the negotiations of the FTAA, which also included a Chapter on IP<sup>8</sup>. The composite text of the draft FTAA-IPRs Chapter, under negotiation, refers to similar provisions finally incorporated in the FTA<sup>9</sup>.

The third important development was the discussions in the US Congress on the approval of the TPA (Box 1), to renew the US presidential authorization to negotiate free trade agreements under certain conditions. The absence of such authorization could have frozen or postponed the negotiations with Chile. The approval of this legislative Act was a complex exercise whose final adoption accelerated the parallel negotiations with Chile and Singapore<sup>10</sup>.

## 1.2 Perceived advantages

A free trade agreement between Chile and the USA was perceived as giving political and economic advantages to both countries. For the USA, it meant signing the most comprehensive free trade agreement since NAFTA, including provisions on intellectual property. Commercially, for Chile, the USA is its major trade and investment<sup>11</sup> partner. At the same time, for the Chilean government, the signing of trade agreements, within the same calendar year with both the European Union (EU) and the USA, would be, as actually happened, a major achievement and political success.

Throughout the negotiations, the economic and development asymmetries between the two countries permeated the discussions. One single example reflects these differences: Chile's yearly exports amount to two-thirds of what the US exports in one single week.

As a result of the FTA, 85% of bilateral trade in consumer and industrial products became tariff-free on 1 January 2004, with most of the remaining tariffs to be eliminated by 2008. Close to two-thirds of farm products will be tariff-free by the same year and all tariffs and quotas will be phased out within 12 years. According to Chilean trade authorities, notwithstanding the asymmetries referred above, the outcome of this process should represent an increase of 16% of Chilean exports, which may increase its GNP by 0.7 points.

Another important achievement of the negotiations, from the

Chilean authority's point of view, was the consolidation of the Generalized System of Preferences (GSP) granted by the USA to Chile and subject to periodical renewal and negotiations. All products included in the GSP became tariff-free. In addition, Chile obtained the elimination of tariff escalation, which limited the diversification of Chilean exports. Tariff free trade for important exporting Chilean sectors, such as textiles, clothes and shoes, was also achieved.

## 1.3 US approach to free trade agreements and IP

The USA has followed a consistent and unremitting policy of elevating IPRs standards. It has done so through unilateral, bilateral, regional and multilateral action. First of all, it has raised the levels of protection domestically and has kept on monitoring enforcement of IPRs internationally, through the Special 301 Report, by listing countries that do not meet US expectations in this field. The latter is part of the Trade Act which orders the US Trade Representative to produce an annual report that is the first step to imposing trade sanctions on countries which systematically damage the interests of US IPR holders<sup>12</sup>.

Regionally and multilaterally, the USA has always been at the forefront of negotiations within the FTAA and Asia-Pacific Economic Cooperation (APEC), and prominently so during the Uruguay Round and at the World Intellectual Property Organisation (WIPO).

Bilaterally, even before the completion of the TRIPS Agreement the USA concluded its bilateral agreement with Canada<sup>13</sup>, in which IP features prominently. The USA had a particular concern about liberal Canadian policies in allowing compulsory licensing in support of its pharmaceutical domestic generic industry<sup>14</sup>. Again, in NAFTA, the Chapter on IP is an important component of the treaty, which follows closely the contents of the TRIPS Agreement.

While negotiating with Chile, the USA negotiated simultaneously with Singapore. It also negotiated some other deals after NAFTA. Indeed, on October 24, 2000, the USA reached an agreement with the Hashemite Kingdom of Jordan<sup>15</sup> on the establishment of a Free Trade Area, which entered into

<sup>8</sup> See FTAA, IPRs Chapter

<sup>9</sup> For a comparison of the legal texts between the TRIPS and the draft IP provisions being discussed in the FTAA, see Vivas-Eugui 2003 and Supplementary Table, available at: <http://www.geneva.quino.info/pdf/FTAASupptableA4.pdf> or <http://www.qiap.ca/pages/publications.html>

<sup>10</sup> The USA negotiated simultaneously FTAs with Chile and Singapore. The negotiations with Singapore were launched during the APEC Economic Leaders meeting held in Brunei in 2001, and completed by the end of 2002

<sup>11</sup> In the period 1996-2002, the USA represented around 20% of its total exports and imports and 30% of its inbound foreign investment. See, Message to Congress, 2003

<sup>12</sup> Chile, as well as other important US trade partners such as Canada, Mexico, the EU, Korea, appears in the 2004 Special 301 Report. The Report sets the US IPRs policy priorities in its negotiations. In the 2004 Report the USA has stressed the importance of adopting the WIPO Internet Treaties, controlling optical media production, legitimate use of software by government agencies, and implementing the TRIPS

Agreement (especially Article 39.3 on protection of test data). See the 2004 Special 301 Report at <http://www.ustr.gov/reports/2004-301/special301.htm>

<sup>13</sup> The Canada – US Free Trade Agreement entered into force on January 1, 1989. See, <http://wehner.tamu.edu/mgmt.www/nafta/fta/>

<sup>14</sup> Reichman, 2003

<sup>15</sup> The agreement was signed on October 24, 2000. <http://www.sice.oas.org/Trade/us-jrd/usjrd.asp>

force in December 2001. This agreement had great political implications because it anticipated the “TRIPS-plus”<sup>16</sup> policy of the USA. The Bilateral Trade Agreements (BTAs) negotiated with Lao People’s Democratic Republic and with the Socialist Republic of Vietnam<sup>17</sup> also have extensive TRIPS-plus provisions.

The USA has since concluded free trade agreements with Israel<sup>18</sup>, Australia<sup>19</sup>, Morocco<sup>20</sup>, and with Central American countries (CAFTA), including Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua<sup>21</sup>. The Dominican Republic recently joined CAFTA. In all of them, specific provisions on IPRs are included. The USA has also started free trade negotiations with the five nations of the African Southern Customs Union (SACU)<sup>22</sup>, including Botswana, Lesotho, Namibia, South Africa and Swaziland; with Bahrain<sup>23</sup>; and a number of Middle-East countries.<sup>24</sup> Trade agreements with Thailand, Panama, Colombia, Peru, Bolivia and Ecuador<sup>25</sup> are also in the making.

In general terms, the official negotiating objectives of the USA with respect to IPRs are clearly enunciated in the TPA Act of 2002 (Box 1). For Chile, the major demands made by the USA are summarized, in Box 4.

### 1.4 Chile’s approach to free trade agreements and IPRs

At the beginning of the 1990s, the newly democratically elected government of Chile began developing a trade policy based on three main pillars: (i) unilateral reduction of trade tariffs, across the board, from 15% in 1989 to 6% in 2003; (ii) enhancement of its participation in multilateral trade negotiations; and (iii) engagement in bilateral negotiations of free trade agreements. This multidimensional strategy has been characterized as Chile’s “lateral trade policy” consisting of multilateral, plurilateral and bilateral agreements that “have complemented the process of unilateral openness...”<sup>26</sup>. This meant, in practice, that when Chile con-

## Box 1: The Trade Promotion Authority (Trade Act of 2002)

### Section 2102

(4) Intellectual property. ...The principal negotiating objectives of the USA regarding trade-related intellectual property are...

(A) to further promote adequate and effective protection of intellectual property rights, including through—

(i)(I) ensuring accelerated and full implementation of the Agreement on Trade-Related Aspects of Intellectual Property Rights referred to in section 101(d)(15) of the Uruguay Round Agreements Act (19 U.S.C. 3511(d)(15)), particularly with respect to meeting enforcement obligations under that agreement; and

(II) ensuring that the provisions of any multilateral or bilateral trade agreement governing intellectual property rights that is entered into by the USA reflect a standard of protection similar to that found in US law;

(ii) providing strong protection for new and emerging technologies and new methods of transmitting and distributing products embodying intellectual property;

(iii) preventing or eliminating discrimination with respect to matters affecting the availability, acquisition, scope, maintenance, use, and enforcement of intellectual property rights;

(iv) ensuring that standards of protection and enforcement keep pace with technological developments, and in particular ensuring that rightholders have the legal and technological means to control the use of their works through the Internet and other global communication media, and to prevent the unauthorized use of their works; and

(v) providing strong enforcement of intellectual property rights, including through accessible, expeditious, and effective civil, administrative, and criminal enforcement mechanisms;

(B) to secure fair, equitable, and non-discriminatory market access opportunities for US persons that rely upon intellectual property protection; and

(C) to respect the Declaration on the TRIPS Agreement and Public Health, adopted by the World Trade Organization at the Fourth Ministerial Conference at Doha, Qatar on November 14, 2001.

Source: [http://www.tpa.gov/pl107\\_210.pdf](http://www.tpa.gov/pl107_210.pdf)

<sup>16</sup> TRIPS-plus refers to commitments that go beyond what is already included or consolidated in the TRIPS Agreement. TRIPS-plus agreements or commitments can imply: Inclusion of a new area of IPRs; implementation of a more extensive standard; and, elimination of an option for Members under the TRIPS Agreement. See Vivas-Eugui, p 4, 2003

<sup>17</sup> The US–Laos Bilateral Trade Agreement (BTA) was concluded in 1997 and signed in 2003. See, <http://www.ustr.gov/regions/asia-pacific/2003-04-bta-laos.pdf>. The US–Vietnam BTA was signed in July 2000. See, <http://www.ustr.gov/regions/asia-pacific/text.pdf>

<sup>18</sup> The agreement was signed on April 22, 1985, but the final phase of the agreement was fully implemented on January 1, 1995. See text at: [http://www.us-israel.org/jsource/US-Israel/FTA\\_Text.html](http://www.us-israel.org/jsource/US-Israel/FTA_Text.html)

<sup>19</sup> The agreement was concluded on February 2004 and signed in May 2004. See:

<http://www.ustr.gov/new/fta/Australia/text/>

<sup>20</sup> Negotiations were concluded on March 2, 2004 and the FTA was signed on June 15, 2004. See the US–Morocco FTA at <http://www.ustr.gov/new/fta/Morocco/text/index.htm>

<sup>21</sup> CAFTA was signed in May 2004. See, <http://www.ustr.gov/new/fta/cafta/text/index.htm>

<sup>22</sup> The USA and the SACU launched negotiations for a Free Trade Agreement in Pretoria, South Africa, on June 2, 2003. It will be the first free trade agreement for the USA in Sub-Saharan Africa and the first time that SACU nations would jointly negotiate such kind of agreement. This will be done under the framework of the African Growth and Opportunity Act

<sup>23</sup> Negotiations with Bahrain for a free trade agreement were launched on January 2004 and concluded on May 28, of the same year. See “Trade Facts” of March 2, 2004, available at the Office of the United States Trade Representative web site:

<http://www.ustr.gov>

<sup>24</sup> The USA announced on May 9, 2003, a proposal to create a free trade area between the USA and several countries in the Middle East over the next decade. The proposal consists of gradual steps to increase trade and investment with the USA. The first step is to work closely with nations that want to become members of the WTO, in order to expedite their accession (mainly Saudi Arabia, Lebanon, Algeria and Yemen). Another step is to enhance trade and investment framework action plans (Bahrain, Egypt, Tunisia, Algeria, Saudi Arabia, signed on July 2003; Kuwait, signed on February 2004, and Yemen, signed February 2004). The third step corresponds to free trade agreements with Israel Jordan Morocco and Bahrain. See USTR, 2004

<sup>25</sup> Negotiations with Colombia, Ecuador and Peru were launched on May 18 - 19, 2004

<sup>26</sup> Saez et al, 1999

cluded its negotiations with the USA, in December 2003, it had negotiated important and comprehensive trade agreements with a large number of countries. Between 1990 and 1999, Chile concluded trade agreements with all Latin American countries and with Canada. In 2002 negotiations were completed with the EU, EFTA and the Republic of Korea. This determined policy of the three consecutive coalition governments, according to official sources, has highly contributed to reduce the rate of poverty from 47% in 1989 to 20% by the year 2003<sup>27</sup>.

Chile has signed basically two types of trade agreements with its trade partners: the so-called Economic Complementation Agreements (*Acuerdos de Complementación Económica*), which are basically first generation market access agreements, and Free Trade Agreements. The agreements signed with Bolivia, Colombia, Cuba, Ecuador, Mercosur, Peru and Venezuela correspond to the first category, while those concluded with Canada, Mexico, Central America, the Republic of Korea, EFTA, EU and the USA correspond to free trade agreements<sup>28</sup>.

The first free trade agreement was signed with Canada in December 1996 and entered into force on July 5, 1997. In addition, two side agreements were concluded with that country on environment and labour issues<sup>29</sup>. Tariffs corresponding to over 80% of tradable goods were promptly eliminated and the full tariff elimination programme completed by the end of 2003. Few products were subject to a special elimination programme that will conclude by the year 2014. The agreement also included provisions on investment, services, rules of origin (adapted from the NAFTA), subsidies, customs procedures, dispute settlement and antidumping. There is a sole provision on IP matters<sup>30</sup>. Parties agreed to mutually recognize and protect geographical indications (GIs) of the other Party. In the case of Canada, it will recognize “Chilean *Pisco*” (*Pisco Chileno*), and Chile will recognize “Canadian Whisky.”

Chile concluded its free trade agreement with Mexico on April 17, 1998, which entered into force in August 1999. This agreement replaced and deepened an earlier 1991 Economic Complementation Agreement. The 1999 agreement led to a phasing out of tariffs on trade in goods between Chile and Mexico, except for products of some specific sectors such as agriculture and automobiles. In addition to goods, the agreement included provisions, among others, on services, investment, air transport, telecommunications, mar-

ket access, rules of origin, safeguards measures and IP.

Although the agreement contains a whole chapter on IP<sup>31</sup> it is mainly based on selected provisions of the TRIPS Agreement. This meant in practice that Chile anticipated the implementation of those obligations before the time frame permitted under Article 65, TRIPS<sup>32</sup>, mainly on trademarks. Although the agreement is based on TRIPS, it goes beyond it in several respects. For example, it provides for a longer term of protection in the case of trademarks (10 years) compared to TRIPS (7 years).<sup>33</sup> Another TRIPS-plus trademark provision is that the agreement provides that Parties will require the use of the trademark for the renewal of registrations.<sup>34</sup> Finally, is the requirement to provide for civil liability in cases of acts of decoding or trafficking of devices whose main function is to decode an encrypted program-carrying satellite signals<sup>35</sup>. The agreement also provides for the protection of specific GIs such as Mexico’s “*Tequila*” and “*Mezcal*”, and Chile’s “*Pisco*”<sup>36</sup>, “*Pajarete*”, “*Vino Asoleado*” and several Chilean wine regions as GIs<sup>37</sup>.

During the Second Summit of the Americas in April 1998, the Presidents of Chile, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua agreed to start negotiations on a free trade agreement. These were launched in August 1998 and the agreement signed in October 1999<sup>38</sup>. The first part of the agreement is mainly dedicated to trade in goods, services and investment, while the second includes bilateral protocols with each country containing provisions on tariffs reduction, rules of origin, trade in services and custom valuation. The agreement includes two Memorandums of Understanding related to Education and Culture and Political issues. On IP, the only provisions included cover the mutual recognition and protection of GIs of the other Parties. It does not list any specific GIs, instead it provides for a system of protection of the GIs that each Party will notify to the other<sup>39</sup>.

In December 1999, Chile and the Republic of Korea launched free trade negotiations after the agreement reached by Presidents Eduardo Frei and Kim Dae Jung, at the APEC Summit of Leaders the previous year. This was the first time that Korea initiated negotiations for a free trade agreement. For Chile, Korea was the sixth largest trade partner, but high tariffs on agricultural products were a serious barrier to Chilean exports. The free trade agreement included a large number of issues such as trade in goods, rules of origin, services, investment, telecommunications, competition, government procurement, transparency, dispute settlement mecha-

<sup>27</sup> Message to Congress, 2003

<sup>28</sup> DIRECON

<sup>29</sup> These side agreements do not establish trade sanctions in case of infringement in these two areas, but include mandatory supervision of the Government on these matters.

<sup>30</sup> Article C-11 and Annex C-11 of the Chile-Canada bilateral agreement, DIRECON

<sup>31</sup> Chapter 15, Chile-Mexico FTA

<sup>32</sup> As a developing country, Chile had until the 1 January 2000 to implement the TRIPS Agreement

<sup>33</sup> Article 15-19, Chile-Mexico FTA

<sup>34</sup> Article 15-21 and Annex 15-21, Chile-Mexico FTA

<sup>35</sup> Article 15-12, Chile-Mexico FTA

<sup>36</sup> Nevertheless in the case of the Chilean geographical indication (GI) “Pisco”, Mexico reserved its rights to give protection to the same product coming from Peru, which disputes with Chile the use of that GI

<sup>37</sup> Article 15-24, Annex 15-24 and Appendix 15-24 Chile-Mexico FTA

<sup>38</sup> For the Spanish version of the Chile-Central America FTA see: [http://www.direcon.cl/frame/acuerdos\\_internacionales/f\\_bilaterales.html](http://www.direcon.cl/frame/acuerdos_internacionales/f_bilaterales.html)

<sup>39</sup> Article 3.12, Chile-Central America FTA at <http://www.sice.oas.org/trade/chicam/chicam2.asp#cont>. To date, the only GIs that have been notified are *Pisco*, *Vino Asoleado* and *Pajarete* for Chilean spirits and wines. Because the trade agreement has entered into force only for El Salvador and Costa Rica, Chile has notified its GIs only to those two countries



nism and IPRs. The IPRs Chapter is brief and includes provisions on trademarks, GIs<sup>40</sup>, enforcement – a reference to the relevant TRIPS provisions – and a consultative mechanism on the matter<sup>41</sup>.

At the end of the same year, Chile and EFTA<sup>42</sup> started consideration of a free trade agreement aimed at the creation of a free trade zone between both parties. Negotiations started by the end of 2000 and an agreement was signed on June 26, 2003, after six rounds of negotiations<sup>43</sup>. The agreement includes provisions on trade in goods, rules of origin, trade in services, government procurement, competition policy, transparency, dispute settlement and IPRs. On the latter a very broad provision was adopted to protect IPRs on the basis of national treatment as defined in the agreement. In an annex to the agreement the Parties agreed to become Party, by the year 2007, to a number of international agreements (Box 2).

### Box 2: Chile-EFTA

List of international agreements that Parties agreed to become members of

- The World Intellectual Property Organization Copyright Treaty, WCT, 1996;
- The World Intellectual Property Organization Performances and Phonograms Treaty, WPPT, 1996;
- The Patent Cooperation Treaty, of June 19, 1970, Washington Act amended in 1979 and modified in 1984;
- The Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks of 15 June, 1957, Geneva Act 1977, amended in 1979; and
- International Convention for the Protection of New Varieties of Plants, 1978 or 1991.

The Parties also agreed to join the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure, of April 28, 1977, no later than January 1, 2009.

Source: [http://secretariat.efta.int/Web/ExternalRelations/PartnerCountries/CL/CL\\_RUAP/Annexes/Annex\\_XII.pdf](http://secretariat.efta.int/Web/ExternalRelations/PartnerCountries/CL/CL_RUAP/Annexes/Annex_XII.pdf)

The agreement with EFTA contains additional provisions on patents, undisclosed information, industrial designs<sup>44</sup>, GIs and enforcement, consonant with the TRIPS standards<sup>45</sup>.

Finally, negotiations between Chile and the EU started on

April 10, 2000 and were followed by nine additional rounds of negotiations completed by April 2002<sup>46</sup>. The agreement entered into force on February 1st, 2003. From that date on, 85% of Chilean products have been tariff-free, representing 96% of all Chilean exports to the European Community market<sup>47</sup>.

Although this Association Agreement with the EU is mainly trade related, there are some institutional, political and international cooperation aspects that have not been included in other agreements negotiated by Chile. The agreement includes provisions on trade in goods, antidumping, border measures, rules of origin, sanitary and phytosanitary measures, wines and spirits, trade in services, including telecommunications, maritime transport, financial services, government procurement, competition, dispute settlement, and IPRs.

Title VI of Part IV of the Agreement between Chile and the EU refers specifically to IP matters and highlights the need to “ensure adequate and effective protection to intellectual property rights in accordance with the highest international standards<sup>48</sup>, including effective means of enforcing such rights provided for in international treaties”<sup>49</sup>.

The agreement obliges the Parties to become by 1 January 2007 members of a number of international agreements (Box 3).

Probably, the most significant IP related provisions are contained in Annex V, on the “Agreement on the Trade in Wines” and Annex VI concerning Spirits. These annexes include provisions on the reciprocal protection of GIs related to wines and spirits, and the protection of traditional expressions (of both Parties)<sup>50</sup>.

Annex V (Article 5.4) on the Agreement on the Trade in Wine refers to the protection of “homonymous GIs”. It states that in those cases protection shall be given to both geographical indications but the consumer shall not be misled as to the actual origin of the wine. In addition, where a GI protected under the agreement is homonymous with the name of a geographical indication outside the Parties, the latter name may be used to describe and present a wine of the geographical area to which the name refers, provided it is: traditionally and consistently used; its use for that purpose is regulated by the country of origin; and consumers are not

<sup>40</sup>On GIs, Chile recognised protection to “Korean Ginseng” for ginseng, “Korean *Kimchi*” for *kimchi*, and “*Boscong*” for tea; while Korea recognized, as in the case Chile-Mexico, protection for “*Pisco*”, “*Pajarete*”, “*Vino Asoleado*”, and several Chilean wine zones

<sup>41</sup>Negotiations concluded on October 24, 2002 and entered into force on April 1, 2004. See, DIRECON

<sup>42</sup>EFTA Members are Iceland, Liechtenstein, Norway and Switzerland

<sup>43</sup>The agreement between Chile and the EFTA countries is scheduled to enter into force by June 2004

<sup>44</sup>On this matter a protection term of 15 years from

the date of application was agreed for industrial designs

<sup>45</sup>DIRECON

<sup>46</sup>DIRECON

<sup>47</sup>For information on the impact on Chile–EU trade by the accession of the 10 new members to the EU, see <http://www.direcon.cl/frame/noticias/documentos/Ampliaci%F3n%20UE.PDF>

<sup>48</sup>The meaning and extent of “highest international standards” was a highly controversial issue in Chile during the Parliamentary discussion of the Agreement. The same terminology is used in the Agreement between the EU and South Africa

<sup>49</sup>See Article 168 of the Agreement establishing an

association between the European Community and its Member States, and the Republic of Chile. For the English text see:

[http://europa.eu.int/comm/trade/issues/bilateral/countries/chile/euchlagr\\_en.htm](http://europa.eu.int/comm/trade/issues/bilateral/countries/chile/euchlagr_en.htm) and Spanish version at [http://www.sice.oas.org/Trade/chieu\\_e/cheuin\\_e\\_a\\_sp](http://www.sice.oas.org/Trade/chieu_e/cheuin_e_a_sp)

<sup>50</sup>This is the first time that Chile recognizes—in an international instrument—the existence of “traditional expressions” as other countries did before when concluding free trade agreements with the EU

### Box 3: Chile-EU Association Agreement

International IP treaties to which the parties are to become members

The Parties agreed, by 1 January 2007, to accede to and ensure an adequate and effective implementation of the obligations arising from the following multilateral conventions:

- The World Intellectual Property Organization Copyright Treaty, WCT, 1996;
- The World Intellectual Property Organization Performances and Phonograms Treaty, WPPT, 1996;
- The Patent Cooperation Treaty, of June 19, 1970, Washington Act amended in 1979 and modified in 1984;
- The Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks of 15 June, 1957, Geneva Act 1977, amended in 1979; and
- The Strasbourg Agreement Concerning the International Patent Classification of 1971, amended in 1979.

In addition, by January 1, 2009, the Parties shall apply the following Conventions:

- The Convention for the Protection of Producers of Phonograms against the Unauthorized Reproduction of their Phonograms, Geneva, 1971;
- The Locarno Agreement establishing the International Classification for Industrial Designs, 1968, amended in 1979;
- The Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure, of April 28, 1977, amended in 1980; and
- The Trademark Law Treaty, 1994.

A best endeavour obligation<sup>a</sup> was also included with the view to ratify the Protocol to the Madrid Agreement Concerning the International Registration of Marks, the Madrid Agreement concerning the International Registration of Marks, Stockholm Act 1967, as amended in 1979 and the Vienna Agreement establishing an International Classification of Figurative Elements of Marks, 1973 amended in 1985.

<sup>a</sup> Article 170(d) of the Agreement between Chile and the European Communities and its Members States provides that the Parties shall "make every effort to ratify and ensure an adequate and effective implementation of the obligations arising from the following multilateral conventions at the earliest possible opportunity..."

Source: [http://www.europa.eu.int/comm/external\\_relations/Chile/assoc\\_agr/text.htm](http://www.europa.eu.int/comm/external_relations/Chile/assoc_agr/text.htm)

misled into believing that the wine originates in the Party concerned<sup>51</sup>.

The Association Agreement between Chile and the EU is also a TRIPS-plus Agreement especially on the protection of GIs.

In brief, the conclusion of the FTA was the culmination of a clearly bilateral policy and designed trade strategy and generally perceived by Chilean society as a major political and economic achievement. The IP issues were already covered in almost all bilateral trade agreements signed by Chile.

However, GIs were the main concern in most of those agreements. But, in the case of the agreements signed with Mexico, EFTA and the EU, beyond deepening the implementation of TRIPS, important commitments were made for the ratification of a number of multilateral treaties administered by WIPO. Annex A to this study provides a more detailed picture of the IP situation in Chile including its international obligations. Annex B summarizes Chile's treaty obligations as a result of these bilateral agreements.

### 1.5 Background to the IPRs Chapter of the FTA

Although, as briefly reviewed above, all the free trade agreements negotiated by Chile included provisions on IP those finally incorporated in the FTA are clearly the most comprehensive ones. They are also the ones that go beyond TRIPS in many respects.

For the USA, the negotiations with Chile represented an important opportunity to consolidate changes in the area of IP for which some industrial domestic groups were driving for reforms, namely in the area of new copyright disciplines in the digital environment and improved protection for pharmaceutical and agricultural chemical products. The US copyright industry, including entertainment and software, together with the pharmaceutical sectors, from both countries, played a key role during the negotiations.

The Chilean domestic pharmaceutical sector is relatively important. It meets 90% of the public health sector needs. It is the only one with installed capacity and generates more than 6,000 jobs plus 50,000 related to sub-contracting and out-sourcing. Foreign pharmaceutical companies, on the other hand, are mere importers and distributors of products produced abroad<sup>52</sup>. The domestic market for pharmaceutical products in Chile amounts to almost US\$ 600 million per year compared with US\$ 140 billion of the US market<sup>53</sup>.

In terms of patent applications, Chile is not a major player particularly when compared to trademarks. According to the Industrial Property Department, 2,400 patent applications were filed in 2003; one third coming from US applicants and around 13% from domestic inventors. In 1999 and 2000, respectively, a total number of 2,814 and 3,100 patent applications were filed. Only 5% of those applications relate to the health sector<sup>54</sup>. (For more details, see Annex A).

Understandably, the Chilean domestic pharmaceutical industry was particularly alert during the FTA negotiations and expressed, from the outset, concerns about the introduction in the negotiations of issues such as:

<sup>51</sup>Very similar language is used in Article 6.5 of the Agreement between the European Community and Australia on trade in wine. See

[http://www.ecdel.org.au/eu\\_and\\_australia/wine-agreement/wineagreement.htm](http://www.ecdel.org.au/eu_and_australia/wine-agreement/wineagreement.htm)

<sup>52</sup>ASILFA

<sup>53</sup><http://www.ims-global.com>

<sup>54</sup>Classified under sectors A-61 and A-62 of the International Patent Classification System

- Increase of patent protection term;
- Reinstatement of pipeline protection for pharmaceutical products;
- Prohibition of parallel importation and exhaustion of patent rights;
- Restrictions on procedural issues (e.g., elimination of the opposition process);
- Enhancement of the protection of undisclosed information;
- Increasing fines in case of infringement;
- Linkage between sanitary permits and the granting of patents;
- Limitations for granting compulsory licenses; and,
- Scope of the reversal of the burden of proof in case of process patents.

Preliminary discussions with the USA focused on the possible scope of the IP Chapter. In the earlier stages of the negotiations, Chile submitted a proposal, based on Chapter 15 of its agreement with Mexico, to the USA for consideration. The USA first presented a formal proposal in May 2001 – five months after the negotiations started. This initial proposal was complemented and amended during the course of the negotiations.

The FTA IP Negotiating Group met for the first time in January 2001. Reportedly, Chile from the very beginning tried to avoid the inclusion of TRIPS-plus provisions particularly because it felt, as illustrated above, that it had intensively advanced in the implementation of TRIPS and in the signature of important international conventions in this field. However, for the USA a trade agreement without higher standards of protection was not an option. From the outset, the USA indicated the areas considered to be of major concern in reaching an agreement on IP matters (Box 4)<sup>55</sup>. Those demands had no resemblance with the original Chilean proposal and suggests, as reflected in the concerns advanced by its local industry, that pharmaceutical issues were high in the US agenda.

Interestingly, given that the FTA negotiations took place while the USA was negotiating an agreement with Singapore, there are some important differences between these two free

#### **Box 4: Original US demands in the IP Chapter**

- Better coordination between the health authorities and the Industrial Property Department to avoid the granting of marketing approval to pharmaceutical products similar to pharmaceuticals still under patents;
- A ban on the use of undisclosed information required to grant marketing approval of competing or similar pharmaceutical and agricultural chemical products;
- Implementation of an adequate system to protect undisclosed information under Article 39.3 of the TRIPS Agreement;
- Establishment of pipeline protection for pharmaceuticals products;
- The patenting of transgenic plants and animals;
- Limitations in the granting on compulsory licenses;
- Limitations to the denial of patent applications based upon certain grounds such as morality, prejudice to the environment, and diagnostic, therapeutic and surgical methods for human and animal treatments;
- Limitations on the use of parallel importation;
- Establishment of an effective mechanism to guarantee that all public agencies use only authorized computer programs;
- Clarification of the right of reproduction with respect to temporary reproductions;
- The non-recordal of trademark licenses for their validity;
- The increase in the level of enforcement for infringement of digital related products;
- Participation of governments in Internet Corporation for Assigned Names and Numbers (ICANN) and adoption of the Uniform Domain-Name Dispute-Resolution Policy (UDRP);
- The possibility of the right holder to recover profits perceived by the infringer of copyrighted products;
- The seizure of infringing goods and of material and implements by means of which such goods are produced; and,
- Establishment of criminal remedies to provide a deterrent to future infringements.

trade agreements, as discussed throughout this paper.

The final and decisive round of negotiations took place in December 2002, where over 90 Chilean and 140 US negotiators from different agencies worked for nine straight days to conclude the Agreement. On that occasion most of the outstanding questions were overcome, including those in the Chapter on IP.

<sup>55</sup>See also Box 1, above, on the US TPA

## 2. Objectives, temporal scope of application and general principles

### 2.1 Objectives

The objectives of the FTA are principally exposed in the Preamble to the IPRs Chapter. This Preamble, unique in trade agreements signed by the USA, is a strange element in the whole architecture of the Agreement. This is the only chapter in the whole FTA that has a preamble of its own. For example, equivalent norm-setting chapters, such as Chapter 10 dealing with investment, do not have a preamble. This preamble might suggest an autonomous treaty on IP between the two countries particularly because the FTA itself begins with a general preamble that features protection of IP as one of its important objectives. The relevant paragraph in the general FTA Preamble stresses the wish to stimulate creativity and innovation and the promotion of trade in goods and services subject to IPRs. The Preamble to Chapter 17 (Box 5) that featured in the early stages of the negotiations is more specific and relates in general to the need to reduce distortions and obstacles to trade between the Parties and that, in this context, IP systems do not become barriers to legitimate trade. This clause resembles a similar provision in TRIPS<sup>56</sup>.

The relevance of such a Preamble is that in case a dispute arises it could be used as a source for interpretation of the operative provisions of the Agreement. Since the Preamble is not directed to establishing specific rights or obligations, it is difficult to predict the circumstances in which its provisions may be relied upon. Many or most FTA provisions leave some room for interpretation, and in this sense the Preamble may be relevant in many interpretative contexts. Some general observations on the contents of this Preamble may help give a general understanding of the FTA's objectives and principles<sup>57</sup>.

#### 2.1.1 Reduction of distortions and impediments to trade

The first clause of the Preamble indicates that the main objective of the Agreement is “to reduce distortions and impediments to trade between the parties.” This objective is to be accomplished, according to the second clause, by ensuring “that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade” and by greater efficiency and transparency in the administration of the system, as underlined by the following clause.

#### Box 5: FTA Chapter 17 Preamble

The Parties,

*Desiring* to reduce distortions and impediments to trade between the Parties;

*Desiring* to enhance the intellectual property systems of the two Parties to account for the latest technological developments and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade;

*Desiring* to promote greater efficiency and transparency in the administration of intellectual property systems of the Parties;

*Desiring* to build on the foundations established in existing international agreements in the field of intellectual property, including the World Trade Organization (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) and affirming the rights and obligations set forth in the TRIPS Agreement;

*Recognizing* the principles set out in the Declaration on the TRIPS Agreement on Public Health, adopted on November 14, 2001, by the WTO at the Fourth WTO Ministerial Conference, held in Doha, Qatar;

*Emphasizing* that the protection and enforcement of intellectual property rights is a fundamental principle of this Chapter that helps promote technological innovation as well as the transfer and dissemination of technology to the mutual advantage of technology producers and users, and that encourages the development of social and economic well-being;

*Convinced* of the importance of efforts to encourage private and public investment for research, development, and innovation;

*Recognizing* that the business community of each Party should be encouraged to participate in programs and initiatives for research, development, innovation, and the transfer of technology implemented by the other Party;

*Recognizing* the need to achieve a balance between the rights of right holders and the legitimate interests of users and the community with regard to protected works;

Source: <http://www.ustr.gov/new/fta/Chile/final/17.ipr.PDF>

#### 2.1.2 Transparency<sup>58</sup>

This transparency objective in the Preamble is further elaborated in the FTA,

“Article 17.1.12: Each Party shall ensure that all laws, regulations, and procedures concerning the protection or enforcement of intellectual property rights, and all final judicial decisions and administrative rulings of general applicability pertaining to the enforcement of such rights, shall be in writing and shall be published, or where such

<sup>56</sup>See first clause, Preamble, TRIPS. For the full text of the FTA in English and Spanish see <http://www.ustr.gov/new/fta/Chile/final/>. All subsequent quotations are taken from the final text of

the agreement

<sup>57</sup>See UNCTAD-ICTSD *Resource Book*, Part One, Chapter 1.1

<sup>58</sup>Note that besides these particular provisions on transparency, Chapter 15 of the FTA also deals with the issue and is applicable to the IPRs Chapter

publication is not practicable, made publicly available, in a national language in such a manner as to enable the other Party and right holders to become acquainted with them, with the object of making the protection and enforcement of intellectual property rights transparent. Nothing in this paragraph shall require a Party to disclose confidential information the disclosure of which would impede law enforcement or otherwise be contrary to the public interest or would prejudice the legitimate commercial interests of particular enterprises, public or private”.

The transparency provision is in many respects similar to TRIPS<sup>59</sup>. The FTA on its part clarifies in a footnote that the requirement of publication by making a written document available to the public via the Internet satisfies this requirement. The principle of transparency is a general and accepted principle in international law. In the context of international trade, transparency of national IP legislation serves the purpose of making foreign economic operators familiar with domestic rules on IP, thus making international transactions in IP-related products more predictable.

The last four lines of the transparency provision in the FTA are identical to TRIPS, which provides for the typical public interest exception by recognizing that there are certain areas where transparency would do more harm than good.

### 2.1.3 The international IP architecture

The fourth clause of the Preamble emphasizes that the FTA builds on the foundations of the international architecture of IP agreements, including the TRIPS Agreement “and affirming the rights and obligations set forth in the TRIPS Agreement”. (See further discussion below concerning the “non-derogation” clause.)

### 2.1.4 TRIPS and public health

The fifth clause makes a specific reference to the principles in the Doha Declaration on TRIPS and Public Health<sup>60</sup>. This clause is of the utmost importance because it confirms

“...that the TRIPS Agreement does not and should not prevent Members from taking measures to protect public health... and should be interpreted and implemented in a manner supportive of WTO Members’ right to protect public health and, in particular, to promote access to medicines for all” and also “reaffirm(s) the right of WTO

Members to use, to the full, the provisions in the TRIPS Agreement, which provide flexibility for this purpose”.

Is then the Decision on the “Implementation of Paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health” adopted by General Council of the WTO of August 30th, 2003<sup>61</sup>, part of the Doha Declaration on TRIPS and Public Health and therefore of the Preamble of the IPRs Chapter? Clearly yes: it implements one aspect of the said Declaration. The Decision could be considered as an integral part of the Doha Ministerial Declaration, so in the case of interpreting any of the provisions of the FTA, the Doha Declaration, as well as the Decision should be taken into account<sup>62</sup>. This general objective of the Agreement, explicit in its Preamble, should be seen in the context of its operational provisions and, more precisely, on how the new standards incorporated in the FTA, particularly on patents and regulated products, are made fully consistent with the Doha Declaration.

### 2.1.5 Promotion of innovation, transfer and dissemination of technology

The sixth clause, while not identical, resembles the general objectives listed in Article 7, TRIPS, by underlining that the protection and enforcement of IPRs is a

“...fundamental principle of this Chapter that helps promote technological innovation as well as the transfer and dissemination of technology to the mutual advantage of technology producers and users, and that encourages the development of social and economic well-being”.

The only formal difference with TRIPS is that a separate and final clause stresses

“the need to achieve a balance between the rights of right holders and the legitimate interests of users and the community with regard to protected works”.

Finally, clauses seven and eight refer to the relevance of private and public investment and the role of the business community in research, innovation and transfer of technology.

### 2.1.6 Anticompetitive practices and bilateral cooperation

The FTA adds two more general loose objectives. The first relates to anticompetitive practices that might be associated to the exercise of IPRs. In this respect it recognizes that

<sup>59</sup>Article 63, TRIPS: 1. “Laws and regulations, and final judicial decisions and administrative rulings of general application, made effective by a Member pertaining to the subject matter of this Agreement (the availability, scope, acquisition, enforcement and prevention of the abuse of intellectual property rights) shall be published, or where such publication is not practicable made publicly available, in a national language, in such a manner as to enable governments and right holders to become acquainted with them. Agreements concerning the subject matter of this Agreement which are in force between the government or a governmental agency of a Member

and the government or a governmental agency of another Member shall also be published.”

<sup>60</sup>For text of the Declaration, see, [http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_trips\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_trips_e.htm)

<sup>61</sup>For text of Decision, see, See [http://www.wto.org/english/tratop\\_e/trips\\_e/implem\\_para6\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/implem_para6_e.htm)

<sup>62</sup>In the recent US-Morocco FTA a letter has been attached to the agreement recalling the understanding with the USA, concerning “the implementation of the provisions of Chapter 15 of the Agreement [that] does not affect the ability of

either Party to take necessary measures to protect public health by promoting access to medicines for all. This will concern, in particular, cases such as HIV/AIDS, tuberculosis, malaria and other epidemics as well as circumstances of extreme urgency or national emergency. In the event the provisions of Chapter 15 violate an amendment that has entered into force with respect to the Parties of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (1994) (the TRIPS Agreement), the Parties agree to immediate cooperative consultations in order to adapt Chapter 15 of the Agreement as appropriate in light of the amendment to the TRIPS Agreement”.

“Article 17.13: Nothing in this Chapter prevents a Party from adopting measures necessary to prevent anticompetitive practices that may result from the abuse of the intellectual property rights set forth in this Chapter.”

The wording of the FTA resembles that of NAFTA<sup>63</sup> but follows more closely the terminology and concepts found in TRIPS<sup>64</sup>.

Exploitation of IPRs could give rise to the possibility of anti-competitive behaviour, whether by individual firms or by concerted practices or agreement between firms. An adequate definition and implementation of public policies to deal with this problem represents one of the most important criteria for the efficient functioning of any IP system. In order to prevent or control such conflicts a number of countries have enacted antitrust or other competition legislative acts on some or most possible anticompetitive behaviour. The approaches taken depend on the particular conditions of national markets, national legal traditions, and on public interest considerations. In this field, the USA has a long tradition in dealing with the interface between IPRs and competition policies<sup>65</sup>. Chile, on the contrary, has incipient guidelines in this area<sup>66</sup>.

The relevant provisions of the TRIPS Agreement, incorporated by default in the FTA, are Article 8.2 and Article 40. Article 8.2 is part of the “General Provisions and Basic Principles” of Part I of the Agreement. It should be read as a complement to the first paragraph of Article 8, authorizing Members to adopt measures to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development. Part II, Section 8, on “Control of Anti-competitive practices in contractual licenses”, consists of Article 40. Whereas paragraphs 1 and 2 of this provision deal with issues of substantive law relating to anti-competitive licensing practices, paragraphs 3 and 4 relate to matters of enforcement<sup>67</sup>.

In brief, the FTA does not innovate in this area and leaves Parties absolute freedom to legislate on this matter. The only limitations might be found in the general principles of the TRIPS Agreement, outlined above.

The FTA also refers to bilateral technical cooperation that is crucial to enforce IPRs between countries at different stages of development. This cooperation appears essential to

achieve real and effective results in enforcing IPRs, as are the expressed wishes of the parties. However, there are no effective obligations towards this end in the FTA reflecting a rather low level of commitment to fund specific cooperation activities. The issue was raised and discussed in the final phases of the negotiations. It was felt that it was important to increase technical cooperation due to the asymmetrical economic and development conditions of the Parties.

The FTA refers to the obligations of both Parties

Article 17.1.14: to “cooperate on mutually agreed terms and subject to the availability of appropriate funds, to strength the development and protection of intellectual property, and implementing the obligations contained in the Chapter, by means of:

- educational and dissemination projects on the use of intellectual property as a research and innovation tool as well on the enforcement of intellectual property;
- appropriate coordinating, training, specialization courses, and exchange of information between the intellectual property offices of the Parties; and enhancing the knowledge, development, and implementation of the electronic systems used for the managing of intellectual property”.

This provision has no precedent in free trade agreements, except in CAFTA where it is linked to the Committee on Trade Capacity Building created under the said agreement<sup>68</sup>.

## 2.2 Temporal scope of application

### 2.2.1 Entry into force

The FTA addresses the question of the entry into force of the Agreement and the amendment of domestic legislation when this is required by the effect of the FTA. As a matter of general principle, upon the date of entry into force of the Agreement, each Party will give effect to the IP provisions of the FTA. Box 6 provides details of the situations in which the parties have provided for extra time to implement some of their respective obligations.

The transitional provisions of the FTA have been strongly criticized by US industry based on the unnecessarily long transition periods provided to Chile that constitute, according to this view, one of the “principal deficiencies of this otherwise strong agreement”<sup>69</sup>. According to the same source, Chile has gained four years from the entry into force of the

<sup>63</sup>Article 1704, NAFTA: Control of Abusive or Anticompetitive Practices or Conditions.

“Nothing in this Chapter shall prevent a Party from specifying in its domestic law licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. A Party may adopt or maintain, consistent with the other provisions of this Agreement, appropriate measures to prevent or control such practices or conditions.”

<sup>64</sup>Article 8.2, TRIPS, Principles: “Appropriate

measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.”

<sup>65</sup>Roffe, 1998

<sup>66</sup>The Industrial Property Law (No 19039 of 24.01.24.1991), provides for example: that “Non-voluntary licenses may only be granted where the holder of a patent has committed a monopoly abuse according to the Resolution Committee

established under Decree-Law No. 211 of 1973, which shall be the body responsible for determining the existence of an offense and taking a decision thereon.”

<http://clea.wipo.int/clea/lpext.dll/Infobase/1486a/14877/14896?f=hitlist&q=chile&x=Simple&opt=&skc=80000002402401A8640DC872000004E7&c=curr&gh=1&2.0#LPHit1>

<sup>67</sup>See UNCTAD-ICTSD, *Resource Book*, Part Three

<sup>68</sup>Article 19.4, CAFTA

<sup>69</sup>IFAC-3-Chile, p 21

Agreement, to implement the enforcement provisions, when it is already bound by TRIPS in many of these situations. In addition, Chile would have two years to implement the “temporary copy” requirements when providing an exclusive right to reproduce copies in any manner or form. Again, according to the same source, this was uncalled for because the FTA provides only clarifications to what was already an obligation according to the existing copyright agreements to which Chile is a party. A similar extension seems to apply to the implementation of Chile’s obligation to protect against circumvention of technological protection measures, contained already under the WIPO Copyright Treaty (WCT) and WIPO Performances and Phonograms Treaty (WPPT) (known as the WIPO Internet treaties) to which both the USA and Chile are Parties. An open question is whether Chile could comply with the WCT and WPPT before the expiration of the 5-year transition (see Box 6 point 4, c); and, only then implement the stricter provisions of the FTA.

### 2.2.2 Situations pre-FTA

For acts and situations that occurred before the Agreement entered into force<sup>70</sup>, the FTA acknowledges three distinctive cases that are based on parallel principles of the TRIPS Agreement<sup>71</sup>.

#### 1. No obligations with respect to acts prior to the FTA

The first case refers to acts that occurred before the date of entry into force of the FTA<sup>72</sup>. This provision is the same as the one provided for under TRIPS (Article 70.1), but slightly modified to accommodate the drafting to the specific circumstances of the FTA. There seems to be no legal differences between both provisions<sup>73</sup>. As there are no distinctions or exceptions to which acts the provision applies to, it should be understood that it refers to any kind of acts, in a general sense, which occurred before January 1st, 2004, date of the entry into force of the FTA. The issue arises about the consequences of acts preceding the entry into force of the Agreement but with lasting effects thereafter.

These continuing acts may be considered – for the part occurring after such date of application – as acts occurring after the date of application<sup>74</sup>, as suggested in the conclusions and interpretation provided in the WTO *Canada – Term of Patent Protection* case. The Appellate Body concluded that the TRIPS Agreement (Article 70.1) could not be interpreted to exclude existing rights, such as patent rights, even if such rights arose through acts that occurred before the date of application of the TRIPS Agreement for a Member. The same rationale should also apply in the case of the FTA as this principle of non-retroactivity is based on a similar provision of the TRIPS Agreement (Box 7).

## Box 6: Transitional provisions

### Article 17.1

2. Before January 1, 2007, each Party shall ratify or accede to the Patent Cooperation Treaty (1984).
3. Before January 1, 2009, each Party shall ratify or accede to:
  - (a) the International Convention for the Protection of New Varieties of Plants (1991);
  - (b) the Trademark Law Treaty (1994);
  - (c) the Convention Relating to the Distribution of Programme-Carrying Signals Transmitted by Satellite (1974).
4. Each Party shall undertake reasonable efforts to ratify or accede to the following agreements in a manner consistent with its domestic law:
  - (a) the Patent Law Treaty (2000);
  - (b) the Hague Agreement Concerning the International Registration of Industrial Designs (1999); and
  - (c) the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (1989).

### Article 17.12

1. Except as otherwise provided in this Chapter, each Party shall give effect to the provisions of this Chapter upon the date of entry into force of this Agreement.
2. In those cases in which the full implementation of the obligations of the FTA requires a Party to amend its domestic legislation or additional financial resources, those amendments and financial resources shall be in force or available as soon as practicable, and in no event later than:
  - (a) two years from the date of entry into force of the Agreement, with respect to the obligations in Article 17.2 on trademarks, Article 17.4(1) through 17.4(9) on geographical indications, Article 17.9(1), 17.9(3) through 17.9(7) on patents, and Articles 17.5(1) and 17.6(1) on temporary copies;
  - (b) four years from the date of entry into force of the Agreement, with respect to the obligations in Article 17.11 on enforcement (including border measures), and Article 17.6(5) with respect to the right of communication to the public, and non-interactive digital transmissions, for performers and producers of phonograms; and
  - (c) five years from the date of entry into force of FTA, with respect to the obligations in Article 17.7(5) on effective technological measures.

Source: <http://www.ustr.gov/new/fta/Chile/final/17.ipr.PDF>

#### 2. Subject matter existing at the time of entry into force of the FTA

The second case refers to all existing subject matter at the date of entry into force of the Agreement<sup>75</sup>. The FTA gives rise to obligations for all subject matter existing at the date of entry into force of the Agreement and which is protected by a Party on that date, or which meets or comes subsequently to meet the criteria for protection under the terms of the FTA. This provision is similar to those provided for in the other trade agreements recently concluded by the USA.

<sup>70</sup>The FTA entered into force on 1 January 2004

<sup>71</sup>Articles 70.1, 70.2 and 70.3, TRIPS

<sup>72</sup>Article 17.9, FTA: “This Chapter does not give rise to obligations in respect of acts that occurred before the date of entry into force of this

Agreement.”

<sup>73</sup>It is also similar to NAFTA (Article 1720.1), CAFTA (Article 15.1.3) and US-Morocco FTA (Article 15.1.10). The US-Australia FTA does not provide for such a rule, nor does the US-

Singapore FTA

<sup>74</sup>Daniel Gervais, 1998, p 268

<sup>75</sup>Article 17.1.10, FTA

### **Box 7: The Canada – Term of Patent Protection case at the WTO**

The Panel in this case was established to consider claims made by the USA about the term of patent protection provided in Canada's Patent Act which the USA considered as being inconsistent with Canada's obligations under the TRIPS Agreement. The measure at issue in this dispute was Section 45 of Canada's Patent Act under which, before 1 October 1989, Canada provided patent protection for a term of 17 years from the date of grant of a patent. Canada amended the law, with effect from 1 October 1989, to provide patent protection for a term of 20 years from the date of filing of the application for a patent. However, no mechanism was provided in the legislation to allow for conversion from one system to the other. Consequently, Section 44 of the Patent Act established the new rule for applications filed after 1 October 1989, while Section 45 maintained the seventeen year grant rule for patent applications filed before 1 October 1989, thus two terms of protection co-existed. Canada stated that the "non-retroactive application rule" contained in Article 70.1 of the TRIPS Agreement, with respect to "acts" which occurred prior to the date of application of the TRIPS Agreement, does not override the rule in Article 70.2 of the same Agreement, with respect to existing "subject matter" which was protected on the date of application of the TRIPS Agreement. Canada also appealed the Panel's conclusion that Canada is required to apply the obligation under Article 33 to inventions, which, on 1 January 1996, the date of application of the TRIPS Agreement for Canada, were protected by patents, even though these patents were the result of "acts that occurred prior to 1 January 1996." In Addition, Canada relied on Article 28 of the Vienna Convention on the Law of Treaties (VCLT), which provides that a treaty's provisions do not operate to bind a party in relation to any act, fact, or situation that pre-dates the treaty's entry into force for that party. In Canada's view, Article 70.1 of the TRIPS Agreement confirmed the non-retroactivity rule of Article 28 of the VCLT.

The Appellate Body rejected Canada's arguments by ruling that

"...as the protection accorded under Old Act patents in respect of inventions is a "situation which has not ceased to exist" at the date of application of the TRIPS Agreement for Canada, this situation cannot be related to "acts which occurred" before that date and thereby brought within the scope of Article 70.1 of the TRIPS Agreement."

The Appellate Body also stated that an "act" is something that is "done", and the use of the phrase "acts which occurred" under Article 70.1 of the TRIPS Agreement, suggests that what was done is now complete or ended. This should exclude situations, including existing rights and obligations that have not ended.

"The title of Article 70, "Protection of Existing Subject Matter", confirms contextually that the focus of Article 70 is on bringing within the scope of the TRIPS Agreement "subject matter" which, on the date of the application of the Agreement for a Member, is existing and which meets the relevant criteria for protection under the Agreement. A contrary interpretation would seriously erode the scope of the other provisions of Article 70, especially the explicit provisions of Article 70.2."

Source: WTO, *Canada – Term of Patent Protection*, see <http://www.wto.org>

Subject matter includes all that could be protected under the different categories of IP-related rights recognized in the FTA, i.e., inventions (patents), marks (trademarks), geographical places (GIs), literary and artistic works (copyright), rights of performers, producers of phonograms and broadcasting organizations (related rights), encrypted program-carrying satellite signals, regulated products and undisclosed information.

The main theoretical effect of this provision, for patents, is that it recognizes a "pipeline" protection. However, this might not alter the legal situation in Chile because the industrial property law of 1991 extended the scope of patentability to all kind of products and processes. It might, however, have an impact on the protection of undisclosed information related to patented pharmaceutical and agricultural chemical products. In effect, according to the FTA (Article 17.10.1), as discussed below, undisclosed information concerning the safety and efficacy of a pharmaceutical or agricultural chemical product that utilizes a new chemical entity shall be protected at least for five years from the date of the approval of a pharmaceutical product and ten years from the date of approval for an agricultural chemical product. In accordance with the FTA undisclosed information related to these products, which is still protected in the USA, should also be protected in Chile.

For copyright and related rights, obligations on existing works and phonograms are to be determined<sup>76</sup> by the Berne Convention<sup>77</sup>.

A delicate issue concerns the adjustment of the term of a patent to compensate for unreasonable delays in the granting of the right or as result of delays in the marketing approval process<sup>78</sup>, discussed in other sections of this paper. The question that arises is whether a patent application submitted before the FTA was concluded, and where the granting process has taken more than five years from the filing date, could benefit with the adjustment of the term because of the FTA principle regarding "all subject matter existing at the date of entry in force". Or, whether the owner of a patented pharmaceutical product who has been subject to unreasonable curtailment of the patent term as a result of a marketing approval in which the process started before the Agreement was concluded, could also benefit from this principle. One pro-protection interpretation is that if the delays continue to exist after the entry into force of the FTA the principle under consideration should apply.

### **3. Non-obligation to restore protection in the public domain**

Finally, the third case<sup>79</sup> refers to the non-obligation to restore protection to subject matter, which on the date of entry into

<sup>76</sup>Article 17.7.7, FTA

<sup>78</sup>Article 17.9.6 and 17.10.2(a), FTA

<sup>77</sup>Article 18, Berne, by operation of Article 70.2, TRIPS

<sup>79</sup>Article 17.1.11, FTA



force of the FTA has fallen into the public domain. This case should mainly have an effect on artistic and literary works, which have fallen into the public domain, but where the term of protection has been less than 70 years<sup>80</sup>.

## 2.3 General principles

### 2.3.1 Minimum standards

The first provision in Chapter 17 lays down the principle of minimum standards. It states that

17.1.1: “Each Party shall give effect to the provisions of this Chapter and may, but shall not be obliged to implement in its domestic law more extensive protection than is required by this Chapter, provided that such protection does not contravene the provisions of this Chapter.”

The provision in the FTA resembles word-by-word the TRIPS Agreement<sup>81</sup>. However, the FTA does not include an important phrase in TRIPS acknowledging that Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice. Note that:

- The requirement to implement an international agreement is implicit in the obligation to perform it in good faith. The obligation to perform in good faith (“*pacta sunt servanda*”) is recognized in the Vienna Convention on the Law of Treaties (VCLT)<sup>82</sup> and by customary international law. The FTA provides that Members will “give effect to the provisions” of the Agreement, restating the basic international legal obligation<sup>83</sup>.
- The FTA reaffirms the minimum standards principle that the Parties may, but need not, adopt more extensive protection of IP than is required by the FTA. In fact, the FTA goes beyond the minimum standards provided in TRIPS. This by itself is perfectly consistent with TRIPS, which left members with the freedom of adopting higher standards of protection, precisely on grounds of the minimum standard principle.
- However, as pointed out earlier, the FTA does not make reference to the “freedom of implementation method” recognized under TRIPS. In TRIPS each WTO Member decides whether it will adopt specific statutes or administrative rules for its implementation, or instead rely on the text of the Agreement as if it was part of national law.

More importantly, TRIPS authorizes each Member to implement the rules in the manner it deems most appropriate, provided that implementation is in accord with the terms of the agreement. For the FTA it will be important to consider, in the light of the non-derogation principle, discussed subsequently, whether the Parties retain the “freedom of implementation” principle referred to above. One simple explanation for the omission in the FTA of this important principle of TRIPS is that the FTA, as described in different sections of this paper, sets forth specific modalities for the implementation of some of its provisions, without much freedom for the Parties to decide on its method of implementation<sup>84</sup>.

### 2.3.2 Non-derogation clause

An important principle of the FTA that governs the way it should be interpreted states that

17.1.5: “Nothing in this Chapter concerning intellectual property rights shall derogate from the obligations and rights of one Party with respect to the other by virtue of the TRIPS Agreement or multilateral intellectual property agreements concluded or administered under the auspices of the World Intellectual Property Organization (WIPO).”<sup>85</sup>

This non-derogation principle is the first to appear in the trade agreements signed by the USA. It is neither under the NAFTA, nor in the US agreements with Jordan, Singapore or Australia, but it was included in CAFTA<sup>86</sup>.

TRIPS<sup>87</sup> has a similar provision by referring to existing “obligations”, not “rights”, with respect to treaties administered by WIPO. As has been noted elsewhere<sup>88</sup>, the purpose of this provision is to make sure that parties to these agreements do not take the TRIPS Agreement as an excuse to no longer respect their non-WTO commitments where those go beyond the TRIPS minimum standards. In the WTO *EC-Bananas* case, the arbitration award concerning, *inter alia*, the level of suspension of concessions applied to the EC, also referred to Article 2.2, TRIPS. In this respect, the arbitrators’ panel said:

“This provision can be understood to refer to the obligations that the contracting parties of the Paris, Berne and Rome Conventions and the IPIC Treaty, who are also WTO Members, have between themselves under these four treaties. This would mean that, by virtue of the conclusion of the WTO Agreement, e.g. Berne Union mem-

<sup>80</sup>A similar provision, with some exceptions, appears under NAFTA (Article 1720.3), US-Australia FTA (Article 17.1.9) (without exceptions), CAFTA (Article 15.1.2) (without exceptions) and US-Singapore FTA (Article 16.1.6(b)) (without exceptions)

<sup>81</sup>Article 1, TRIPS, provides: “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.”

<sup>82</sup>See Article 26, Vienna Convention on the Law of Treaties (VCLT)

<sup>83</sup>See UNCTAD-ICTSD *Resource Book*, Part One, Chapter 1.2

<sup>84</sup>See relevant discussion, below, on IPRs enforcement

<sup>85</sup>There are 23 agreements concluded or administered under the auspices of WIPO on IP-related matters. The texts of all these treaties are available at: <http://www.wipo.int/treaties/en/index.html>

<sup>86</sup>In CAFTA, the reference to treaties concluded or administered under the auspices of WIPO is limited to those which both States are Party (see Article 15.1.6)

<sup>87</sup>Article 2.2, TRIPS.: “Nothing in Parts I to IV of this Agreement shall derogate from existing obligations that Members may have to each other under the Paris Convention, the Berne Convention, the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits.”

<sup>88</sup>See UNCTAD-ICTSD *Resource Book*, Part One, Chapter 1.3

bers cannot derogate from existing obligations between each other under the Berne Convention. For example, the fact that Article 9.1 of the TRIPS Agreement incorporates into that Agreement Articles 1-21 of the Berne Convention with the exception of Article 6bis does not mean that Berne Union members would henceforth be exonerated from this obligation to guarantee moral rights under the Berne Convention.”<sup>89</sup>

On the reference to “rights” – and not only “obligations” – in the FTA, the first time that a similar reference appears in the context of IPRs agreements, is in the WIPO Patent Law Treaty (PLT)<sup>90</sup> :

Article 15(2): “(a) Nothing in this Treaty shall derogate from the obligations that Contracting Parties have to each other under the Paris Convention. (b) Nothing in this Treaty shall derogate from rights that applicants and owners enjoy under the Paris Convention.”

Note, however, that the reference to “rights” is made in a different context to that of the FTA. The non-derogation principle in the PLT refers to rights of patent applicants and owners, but not to Parties to a treaty as in the case of the FTA.

How should this non-derogation principle be understood? What is its scope?

During the Uruguay Round the relationship between the TRIPS Agreement and some of WIPO’s Conventions (mainly the Paris, Berne and Rome Conventions) was largely discussed. The principle in the FTA seems to go beyond the TRIPS Agreement<sup>91</sup> and creates an even more complex web of interrelationships between the rights and obligations contained in the FTA and the rights and obligations in TRIPS and those concluded or administered under the auspices of WIPO.

As noted, the non-derogation principle in the FTA has a broader scope than TRIPS. According to informal sources, initially, the drafting of this principle was similar to that of the TRIPS Agreement<sup>92</sup>. Thus, it was limited to “obligations” deriving from the Paris, the Berne and the Rome Conventions and the Treaty on Integrated Circuits. During the negotiations the formulation was modified as to include all other WIPO conventions as well as the TRIPS Agreement.

In brief, the non-derogation principle in the FTA:

- Extends to all matters related to IP and not only to Parts I to IV of the TRIPS Agreement dealing with general provisions and basic principles, standards concerning the availability, scope and use of IPRs, enforcement of IPRs and acquisition and maintenance of IPRs and related *inter partes* procedures.

- Is extended to “rights” and not only to obligations as in the equivalent provision in the TRIPS Agreement.

- Applies, in addition to the TRIPS Agreement, to the “multilateral intellectual property agreements concluded or administered under the auspices of the World Intellectual Property Organization.” Several questions might arise regarding this latter phrase. Which are the “multilateral”<sup>93</sup> treaties concluded or administered under the auspices of WIPO? Does this include treaties that are administered jointly by WIPO and other international organizations such as the Rome Convention? Is the UPOV Convention included? Should treaties not yet in force be included? It is difficult to provide at this stage a clear answer to these questions, but it appears to be limited to all WIPO treaties to which both countries are Parties.<sup>94</sup>

- Aims at the non-derogation of any right or obligation, deriving from the said international treaties of a Party with respect to the other. Unless otherwise provided for in the FTA, the non-derogation principle should permit the Parties to preserve all rights and obligations referred to in the TRIPS Agreement and in present and future conventions concluded or administered under the auspices of WIPO to which both the USA and Chile are Parties. Thus, for example, limitations provided under the TRIPS Agreement on the granting of compulsory licences, not explicitly referred to in this chapter of the FTA, are preserved, consistent with other provisions of the Agreement, as discussed in this study. The reaffirmation that compulsory licensing is preserved is the reference made to Article 31, TRIPS, in the FTA Chapter on investment.<sup>95</sup>

- Appears to have “at least some potential utility from a dispute settlement standpoint.”<sup>96</sup>

### 2.3.3 National treatment and most-favoured nation principles

National treatment and the most-favoured nation (MFN) are fundamental principles of the international trading legal system, including the TRIPS Agreement. How do they apply to the FTA?

<sup>89</sup>See *European Communities – Regime for the Importation, Sale and Distribution of Bananas*, WT/DS27/ARB/ECU, cited in UNCTAD-ICTSD Resource Book, Chapter 1.3

<sup>90</sup>The Patent Law Treaty (PLT) – not yet in force – was adopted on June 1 2000 at the Diplomatic Conference held in Geneva on May 11 to June 2, 2000. The purpose of this instrument is to harmonize formal procedures in respect to national and regional patent applications. The treaty shall enter into force three months after ten instruments of ratification or accession by States have been deposited with the Director General of WIPO. As

of January 15, 2004, seven states have deposited such instruments for ratification or accession

<sup>91</sup>Article 2.2, TRIPS

<sup>92</sup>According to available information, an earlier proposal on this matter read the same as Article 2.2 of the TRIPS Agreement. It changed in the final phase of the negotiations

<sup>93</sup>The reference to “multilateral” treaties appears also rather odd. WIPO as an international organization does promote only multilateral agreements.

<sup>94</sup>This clarification was added into CAFTA (Article 15.1.7).

<sup>95</sup>Article 31, TRIPS, is specifically mentioned by Article 10.5.3(b), FTA, with respect to the use of performance requirements

<sup>96</sup>Abbott, 2004, stresses that it is counterproductive to become immersed in technical legal discussions of the role of non-derogation clauses in circumstances such as those presented here. The question is not whether and how lawyers can debate the fine points of interpretation under public international law, but what are the underlying policies of the respective governments

## 1. National treatment

National treatment has been a guiding principle of trade agreements including the General Agreement on Trade and Tariffs of 1947 (GATT 1947). It is also a key feature of the TRIPS Agreement, has been a fundamental aspect of WIPO administered treaties and goes back to the Paris Convention for the Protection of Industrial Property of 1883. For the FTA, this principle aims at non-discrimination between nationals of Chile and the USA on IP matters.

It seems that the USA has not followed a similar approach on this issue in the various free trade agreements, concluded with Jordan, Singapore, Australia and CAFTA. For instance, the exceptions to national treatment provided for secondary uses of phonograms by means of analogue communications and “free over-the-radio broadcasting” appears only in the US agreements with Australia and Chile<sup>97</sup>. In the agreement with Singapore levies on blank tapes are expressly considered as “benefits”, but no such explanation could be found in the other agreements.

The national treatment provision in the FTA provides that

17.1.6: “In respect of all categories of intellectual property covered in this Chapter, each Party shall accord to persons of the other Party treatment no less favourable than it accords to its own persons with regard to the protection and enjoyment of such intellectual property rights and any benefits derived from such rights. With respect to secondary uses of phonograms by means of analogue communications and free over-the-air radio broadcasting, however, a Party may limit the rights of the performers and producers of the other Party to the rights its persons are accorded within the jurisdiction of the other Party.”

The first part of this provision draws mainly from the TRIPS Agreement<sup>98</sup>. This means that, as in the TRIPS Agreement, foreigners “may thus enjoy better treatment than nationals”<sup>99</sup>. This drafting is not the same as in the original definition of national treatment contained in Article 2 of the Paris Convention, which refers instead to “the same” protection<sup>100</sup>.

The main formal difference between the TRIPS Agreement and the FTA, in the first part of this provision, refers to the extent of the national treatment principle. In the FTA, the national treatment extends not only to “the protection” of the IPRs included in the chapter, but also to the “enjoyment”<sup>101</sup> of such rights “and to any benefit derived from such rights”<sup>102</sup>.

The addition of these two new concepts in the FTA could give the impression that the enjoyment of IPRs and any benefits derived from such rights are not covered by the national treatment principle in the TRIPS Agreement. This does not seem to be the case. The broad definition of “protection” provided for under footnote 3 to Article 3, TRIPS, includes matters affecting the availability, acquisition, scope, maintenance and enforcement of IPRs as well as those matters affecting the use of IPRs. Thus, one could reach the conclusion that the concept of “enjoyment” of IPRs was already included in the concept of “use” of those rights.

## 2. Exceptions to national treatment

In the TRIPS Agreement the national treatment principle recognizes a number of exceptions.

The first category of exceptions relates to those already provided for in the Paris, Berne and Rome Conventions and the Washington Treaty<sup>103</sup>.

A second group of exceptions is contained in the TRIPS Agreement itself and refers to performers, producers of phonograms and broadcasting organizations. For these right holders the national treatment obligation only applies to the rights provided for under TRIPS.

A third category of exceptions, drawn almost textually from TRIPS<sup>104</sup>, relate to those specifically referred to in the FTA. Here the Agreement provides that

17.1.7: “Each Party may derogate from paragraph 6 in relation to its judicial and administrative procedures, including the designation of an address for service or the appointment of an agent within the jurisdiction of that Party, only where such derogations are necessary to secure compliance with laws and regulations that are not inconsistent with the provisions of this Chapter and where such practices are not applied in a manner that would constitute a disguised restriction on trade.”

17.1.8: “Paragraphs 6 and 7 do not apply to procedures provided in multilateral agreements concluded under the auspices of WIPO relating to the acquisition or maintenance of intellectual property rights.”

Was it necessary to incorporate a national treatment provision in the FTA in addition to the provision of the TRIPS Agreement?

The national treatment principle in the FTA might be justified in the sense that the intention of the Parties was clearly

<sup>97</sup>See USA agreements with Australia (Article 17.1.6), CAFTA (Article 15.1.8), Jordan (Article 4.3) and Singapore (Article 16.1.3)

<sup>98</sup>Article 3, TRIPS

<sup>99</sup>Gervais, 1998, p 48

<sup>100</sup>This difference seems to have an historical explanation in the signature of the IP agreement between the USA and the Republic of Korea in the late 1980's, where the possibility for foreigners to enjoy better treatment than nationals did exist. Article III of the GATT 1947, takes a similar approach as it refers to a “non less favourable”

treatment meaning that imported goods may have a better treatment than goods domestically produced. For instance, the USA requires copyright registration to file suit for copyright infringement of US copyrighted works. But, because the Berne Convention states that copyright may not be subject to any formalities, foreign works need not register to file suit for copyright infringement.

Therefore, the USA grants its nationals, treatment less favourable than the one granted to foreigners

<sup>101</sup>See also Article 5.2, Berne Convention

<sup>102</sup>According to the *Black's Law Dictionary* “enjoyment” means “1. Possession and use, esp. of

rights or property. 2. The exercise of a right.”

<sup>103</sup>For the Paris Convention, (Article 2) provisions relating to judicial or administrative procedure and to jurisdiction and those relating to the designation of an address for service or the appointment of an agent, are qualified exceptions to the national treatment principle

For further details, see WTO, Beneficiaries of and exceptions to national treatment, pp 2-3. See also UNCTAD-ICTSD *Resource Book*, Part One, Chapter 1.4

<sup>104</sup>Articles 3.2 and 5, TRIPS

to limit the exceptions to national treatment that the Parties may use, according to the Paris, Berne and Rome Conventions, the Washington Treaty and the TRIPS Agreement. But, if that were the case, what about the non-derogation principle, discussed earlier, and the possibilities of the parties to avail themselves of the limitations contained under the TRIPS Agreement? Can those exceptions to national treatment be considered as “rights granted to the Parties under the TRIPS Agreement”? If the answer is yes, then the limitations to national treatment contained under TRIPS should not be understood as being derogated.

### 2.3.4 The MFN principle

National treatment, as discussed above, is a fundamental principle of the FTA and explicitly dealt with in the Agreement. MFN applies to third parties as a result of the two Parties being members of the WTO and more specifically it is one of the consequences of the principle of non-derogation<sup>105</sup>.

Application of a MFN standard for IPRs protection is an innovation in the multilateral context. The TRIPS Agreement provides for the immediate and unconditional extension to nationals of all Members of

Article 4: “...any advantage, favour, privilege or immunity granted with respect to the protection of intellectual property to nationals of any country.”

In the US–Havana Club case<sup>106</sup>, the WTO Appellate Body elaborated on this by highlighting that:

“Like the national treatment obligation, the obligation to provide most-favoured-nation treatment has long been one of the cornerstones of the world trading system. For more than fifty years, the obligation to provide most-favoured-nation treatment in Article I of the GATT 1994 has been both central and essential to assuring the success of a global rules-based system for trade in goods. Unlike the national treatment principle, there is no provision in the Paris Convention (1967) that establishes a most-favoured-nation obligation with respect to rights in trademarks or other industrial property. However, the framers of the *TRIPS Agreement* decided to extend the most-favoured-nation obligation to the protection of intellectual property rights covered by that Agreement. As a cornerstone of the world trading system, the most-favoured-

nation obligation must be accorded the same significance with respect to intellectual property rights under the *TRIPS Agreement* that it has long been accorded with respect to trade in goods under the GATT. It is, in a word, fundamental.” (at para. 297)

The TRIPS Agreement recognizes exceptions to the MFN principle. One of these exceptions relates to any advantage, favour, privilege or immunity deriving from international agreements related to the protection of IPRs entered into force prior to the entry into force of the Agreement establishing the WTO<sup>107</sup>. Two additional conditions should be met in this case: the said agreement shall be notified to the WTO<sup>108</sup> and shall not constitute “an arbitrary or unjustifiable discrimination against nationals of other Members”<sup>109</sup>. There is no definition of what constitutes an “arbitrary or unjustifiable discrimination” against nationals of other Members.

The clear meaning of this principle is that any advantage, favour, privilege or immunity accorded by a WTO Member to nationals of any other country (not necessarily a WTO Member), after January 1st, 1995, needs to be immediately and unconditionally extended to nationals of any other WTO Member.

As there is no definition under the TRIPS Agreement on what constitutes an advantage, favour, privilege or immunity for the protection of IP, there is uncertainty as to what it means exactly. In some cases it could be easily settled, for instance in the case of the term of protection of a certain category of IPRs; but, in non-quantitative matters the situation could be different.

Reportedly, during the negotiations of the FTA, Chile raised concerns on the effects of the MFN principle with respect to TRIPS-plus provisions that would automatically be extended to all other WTO Members. The issue was discussed in a number of negotiating sessions but for the USA this was a non-issue because it was negotiating on the basis of its own domestic level of protection.

In brief, as a result of the MFN – a “cornerstone” principle of the international trading system – the advantages, favours, privileges or immunities contemplated in the FTA between Chile and the USA will be accorded “immediately and unconditionally”, in the terms prescribed in the TRIPS Agreement, to nationals of all other WTO members.

<sup>105</sup>The chapters dealing with investments and services do provide for an explicit reference to the MFN principle. See Articles 10.3 and 11.3, FTA

<sup>106</sup>WTO, *USA – Havana Club*

<sup>107</sup>The TRIPS Agreement entered into force on 1

January 1995

<sup>108</sup>The 41 notifications made so far by different WTO Members regarding Article 4(d) of the TRIPS Agreement, are available at the WTO web site: [http://www.wto.org/english/tratop\\_e/trips\\_e/inte17\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/inte17_e.htm)

<sup>109</sup>For some of the notifications made so far under Article 4(d) of the TRIPS Agreement, see UNCTAD/ICTSD Resource Book, Part One, Chapter 1.4

## 3. Substantive IP standards

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### 3.1 Introduction

The FTA deals with certain IP disciplines, setting standards of protection generally higher than those in the TRIPS Agreement. The following sections describe their main features. For other IP disciplines not dealt with explicitly in the FTA, the standards of the TRIPS Agreement as well as of other international IP instruments in which both Parties are members would prevail. For instance, the FTA is silent on industrial designs, as well as on layout-designs of integrated circuits covered in the TRIPS Agreement. On these issues and in the light of the principle of non-derogation, discussed above, the standards of TRIPS prevail. Furthermore, as discussed here, the FTA not only sets higher standards of protection than in TRIPS, but also governs disciplines not covered at all by the latter, e.g., domain names, protection against circumvention of effective technological protection measures and limitations on liability of Internet Service Providers (ISPs).

### 3.2 Patents and regulated products

#### 3.2.1 Patents

The FTA patent provisions have received great attention and criticism. In a recent article, focusing on their impact on public health, Carlos Correa has featured the FTA as “a bad deal for Chile”<sup>110</sup>.

How did Chile fare on these questions?

Compared particularly with TRIPS, the FTA section on patents is relatively brief. However, an important section on regulated products complements it. The section on patents deals mainly with issues of patentability, limited exceptions, plant protection, revocation, and delays in their granting. The limited, but significant, treatment of patents in the FTA is explained by the fact that on matters not dealt with, the principles and standards of the TRIPS Agreement govern the relationship of the Parties on these other matters.

On the exhaustion of patent rights, the FTA is silent. The USA has traditionally advocated for a national exhaustion regime and in its bilateral agreements signed with Singapore, Australia and Morocco the possibility of parallel imports may at least be restricted by contract<sup>111</sup>.

#### 1. Patentable subject matter and exceptions

On the important issue of patentability, the relevant FTA principle is that

Article 17.9.1: “Each Party shall make patents available for any invention, whether a product or a process, in all fields of technology, provided that the invention is new, involves an inventive step, and is capable of industrial application. For purposes of this Article, a Party may treat the terms “inventive step” and “capable of industrial application” as being synonymous with the terms “non-obvious” and “useful”, respectively.”

Article 17.9.7: “Neither Party shall use a public disclosure to bar patentability based upon a lack of novelty or inventive step if the public disclosure (a) was made or authorized by, or derived from, the patent applicant and (b) occurs within 12 months prior to the date of filing of the application in the Party.”

The FTA practically reproduces a parallel provision in the TRIPS Agreement<sup>112</sup> and even incorporates into the main text its footnote. This is not the place to deal in detail with the general requirements for patentability as spelled out in TRIPS and reproduced in the FTA<sup>113</sup>, but to underline some general principles related to the requirements of patentability and pertinent to the understanding of the latter agreement.

The FTA contains the overriding requirement that patents shall be available for all types of product and process inventions. It requires making patents available for both product and processes, and prohibits distinctions about the field of technology to which the invention belongs. In addition, the FTA does not explicitly obligate Parties to protect the “second use” of a product.

Any patent application must satisfy the basic criteria of novelty, inventive step and industrial applicability, without altering the criteria already explicit in TRIPS. The FTA, as in the case of TRIPS, does not define what an “invention” is; it only specifies the requirements that an invention should meet to be patentable. This leaves Parties considerable freedom to determine what should be deemed an invention and, if they so desire, to exclude from patentability any substance which exists in nature as being a mere “discovery” and not an “invention”. The FTA also did not define, unlike in CAFTA, the meaning of “industrial application”. CAFTA, importing

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<sup>110</sup>Correa, March 2004

<sup>111</sup>See BTAs by the USA with Singapore (Article 16.7.2), Australia (Article 17.9.4) and Morocco (Article 15.9.4)

<sup>112</sup>Article 27.1, TRIPS: “Subject to the provisions of paragraphs 2 and 3, patents shall be available for

any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application. Subject to paragraph 4 of Article 65, paragraph 8 of Article 70 and paragraph 3 of this Article, patents shall be available

and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced.”

<sup>113</sup>For details see UNCTAD-ICTSD, *Resource Book*, Part Two, Chapter 2.5

concepts from US law<sup>114</sup>, specifies that

“Each Party shall provide that a claimed invention is industrially applicable if it has a specific, substantial, and credible utility.”<sup>115</sup>

The FTA qualifies that novelty or inventive step is not affected by authorized public disclosure or derived from the patent applicant, provided it occurred within 12 months prior to the filing of the patent application<sup>116</sup>.

The FTA does not fully reproduce the relevant TRIPS provision, by omitting the reference that patents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced. This omission apparently should have no major implication because parties are obliged to the principles, both of non-derogation included in the FTA and of non-discrimination of TRIPS<sup>117</sup>. What is striking is the selective form chosen in the FTA of reproducing some TRIPS provisions but omitting others as is discussed later.

Compared to TRIPS, the relevant provision of the FTA limits itself to reproduce partly the first paragraph of Article 27, but does not include related provisions found in the former agreement about exclusions to patentability spelled out in Article 27.2 and 27.3<sup>118</sup>. In CAFTA, the agreement makes specific reference to exceptions to patentability by referring explicitly to the said provisions in the TRIPS Agreement<sup>119</sup>. The other bilateral agreements signed by the USA have followed various approaches<sup>120</sup>. This omission in the FTA – not the only one, as mentioned earlier – is indeed an important question that has no clear and definitive answer.

According to one view shared by participants in the negotia-

tions, the recourse to the exceptions explicitly provided for in TRIPS – and not included in the FTA – is via the non-derogation principle discussed above. If actually the Parties had forgone the possibility of providing for the exceptions to patentability, the provision on patent protection for plants, discussed below, would be superfluous. In effect, the omission of the relevant provisions in TRIPS is partial because the FTA deals in a separate provision with plants, but it does not deal with the issue of protection of animals that under TRIPS (Article 27.3.b) is subject to a facultative exemption. Clearly in this case, the relevant provision of TRIPS applies supporting the argument that in the cases not dealt with explicitly in the FTA, the principles and rules of TRIPS are not derogated.

An alternative view raises doubts about the meaning of this omission that at least creates a great ambiguity on the issue of exceptions to patentability<sup>121</sup>.

## 2. Plant protection<sup>122</sup>

Several countries legislate for the protection of plants under the patent system. In some cases, they do not exclude plants *per se* as a patentable subject matter and in others by specific legislation<sup>123</sup>. Some countries provide patent protection for all kinds of plants regardless of their method of reproduction, while others (e.g., Republic of Korea) protect under patents only those plants that are asexually reproduced<sup>124</sup>.

In the USA there are basically three different statutes covering the protection of plants. The first one is under the Utility Patent Act (Title 35 U.S.C § 101) where the protectable subject matter is any invention (product or process), which meets the criteria of novelty, non-obviousness, utility, and disclosure. The second one relates to the Plant Patent Act (Title 35 U.S.C. § 161) that grants protection to any distinct

<sup>114</sup>US Patent and Trademark Office Guidelines provide that an invention must disclose a specific, substantial, and credible utility

<sup>115</sup>Morin, 2004

<sup>116</sup>According to Morin, 2004, “The United States is one of the few countries that offer a grace period of twelve months prior to the filing of a patent application during which an inventor can use, sell and disclose his or her invention without compromising its ‘novelty’”

<sup>117</sup>Morin, 2004, explains this omission also present in CAFTA as follows: “One possible explanation resides in the fact that US law contains several measures that could be considered *de facto* or *de jure* discriminatory by an international panel of arbitration. These include the procedures of the US International Trade Commission pertaining to foreign inventions; the fast-track examination procedures for biotechnologies; the exclusion of oral communication outside the United States in considering prior art; and the exceptional rights granted to pharmaceutical inventions.”

<sup>118</sup> Article 27.2, TRIPS: Members may exclude from patentability inventions, the prevention within their territory of the commercial exploitation of which is necessary to protect *ordre public* or

morality, including to protect human, animal or plant life or health or to avoid serious prejudice to the environment, provided that such exclusion is not made merely because the exploitation is prohibited by their law

Article 27.3, TRIPS: Members may also exclude from patentability:

(a) diagnostic, therapeutic and surgical methods for the treatment of humans or animals;

(b) plants and animals other than micro-organisms, and essentially biological processes for the production of plants or animals other than non-biological and microbiological processes. However, Members shall provide for the protection of plant varieties either by patents or by an effective *sui generis* system or by any combination thereof. The provisions of this subparagraph shall be reviewed four years after the date of entry into force of the WTO Agreement.”

<sup>119</sup>Article 15.9.2, CAFTA: “Nothing in this Chapter precludes a Party from excluding inventions from patentability as defined in Articles 27.2 and 27.3 of the TRIPS Agreement. Notwithstanding the foregoing, any Party that does not provide patent protection for plants by the date of entry into force of this Agreement shall undertake all reasonable

efforts to make such patent protection available. Any Party that provides patent protection for plants or animals as of, or after, the date of entry into force of this Agreement shall maintain such protection.”

<sup>120</sup>For example, the agreements with Jordan, Singapore and Australia allow only for the exceptions in Article 27.2 and 3(a), TRIPS, thus excluding the exceptions for plants and animals. The Morocco agreement in an ambiguous formulation allows for the exception in Article 27.2 and is silent on Article 27.3(a), TRIPS. It further provides for the protection of plants and animals through patents. Furthermore, the latter agreement provides that “patents shall be available for any new uses or methods of using a known product, including new uses of a known product for the treatment of humans and animals”

<sup>121</sup>Correa, March 2004

<sup>122</sup>Van Overwalle, 1999

<sup>123</sup>See the WTO series IP/C/W/125 and addenda 1 to 24, “Review of the Application of Article 27.3(b) of the TRIPS Agreement.”

<sup>124</sup>In the USA, patent protection for plants asexually reproduced is contained under section 161 of Title 35 of the US Code

and new asexually reproduced plant including hybrids and newly found seedlings. Finally, the third system corresponds to the Plant Variety Protection Act (Title 7 U.S.C § 2327), which protects novel sexually reproduced plant varieties if they possess distinctness, uniformity and stability.

Chile protects plants through a *sui generis* system<sup>125</sup> based mainly on the International Union for the Protection of New Varieties of Plants (UPOV) Convention<sup>126</sup>, as revised in 1978; but, under the FTA, Chile committed to adhere to the 1991 Act of UPOV by 1 January 2009.

The FTA does not contain an explicit obligation to protect plants under the patent system. But, it provides for a “best effort” clause in order for each Party to undertake reasonable efforts, through a transparent and participatory process, to develop and propose legislation – within four years from the entry into force of the Agreement – to make available patent protection for plants which are new, involve an inventive step, and are capable of industrial application<sup>127</sup>. This provision does not contain any limitation on the type of plants that should be protected under the patent system (sexually and/or asexually reproduced). According to this obligation, that in practice applies only to Chile, the latter is not obliged to consider plants as a patentable subject matter, but to engage in a process to legislate to that effect.

During the negotiations, Chile resisted changing its current system to allow for the patentability of plants before undertaking a thorough study of the issue. The result was the ambiguous outcome reflected in this provision. This “best endeavour” obligation would seem to end when the proposed legislation is submitted to the competent authorities. It is the view of participants in the negotiations, that in case the proposed legislation fails to materialize the relevant provisions of the TRIPS Agreement should continue governing the situation. This does not answer the question of the possible consequences for Chile, in its bilateral relations with the USA, of failing to pass this legislation. In any event, Chile in its current system is TRIPS compatible.

A comparison of the FTA with other trade agreements signed by the USA shows that in the NAFTA – in a similar provision to TRIPS – plants and animals may be excluded from patentability<sup>128</sup>. Similar provisions are contemplated under the CAFTA and Singapore agreements. Nevertheless, in CAFTA any Party that does not provide patent protection for plants by the date of entry into force of the Agreement shall undertake all reasonable efforts to make such patent protection available. In addition, according to the same agreement, any Party that provides patent protection for plants and animals as of, or after, the date of entry into force of the

Agreement shall maintain such protection.

### 3. Limited exceptions

The FTA, replicating the TRIPS Agreement<sup>129</sup>, states

Article 17.9.3: “Each Party may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.”

Patents confer an “exclusive” right, that is, the right to prevent others from using the invention, without the authorization of the patent holder. The market power conferred by patents, and the important benefits the patent owner may obtain, constitute one of the essential elements of patent grants. However, the conferred rights are not absolute. Under most patent laws, such rights may not be exercised over certain acts performed by third parties. This means that under certain specified circumstances, there may be exceptions to the exclusive rights. These exceptions should not be confused with the exceptions to patentability, alluded to earlier when discussing the issue of patentability. The limited exceptions discussed here apply when a patent has already been granted.

Exceptions to patent rights operate automatically, in the sense that there is no need for a party to obtain a specific authorization from a governmental body or judicial court – which is necessary for compulsory licences – to perform the exempted act. As a result, the exceptions may be invoked as a defence in case of alleged infringement by any third party, at any time during the lifetime of the patent<sup>130</sup>.

The FTA allows for the establishment of exceptions to patent rights, but imposes conditions on such exceptions. As in the case of TRIPS, exceptions to patent rights are subject to three conditions:

- the exception must be “limited”<sup>131</sup>;
- the exception should “not unreasonably conflict with the normal exploitation” of the patent; and,
- the exception should “not unreasonably prejudice the legitimate interests” of the right holder and of third parties.

In Canada-Patent Protection of Pharmaceutical Products (Box 7) the WTO panel was of the view that these conditions are “cumulative, each being a separate and independent requirement that must be satisfied. Failure to comply with any one of the three conditions results in the Article 30 exception being disallowed”. The panel added that:

<sup>125</sup>See Chilean Law 19.342 which Regulates Rights of Plants Breeders Rights

<sup>126</sup>International Union for the Protection of New Varieties of Plants (UPOV), (established by the International Convention for the Protection of New Varieties of Plants), is an independent intergovernmental organization, was signed in 1961 and

revised at Geneva in 1972, 1978 and 1991

<sup>127</sup>Article 17.9.3, FTA

<sup>128</sup>Article 1709.3(b), NAFTA

<sup>129</sup>Article 30, TRIPS

<sup>130</sup>See UNCTAD-ICTSD, *Resource Book*, Part Two, Chapter 2.5

<sup>131</sup>This language, substantially borrowed by the TRIPS Agreement from Article 9 (2) of the Berne Convention, requires a determination of what is “unreasonable” in certain circumstances and when there is a “conflict” with the “normal” exploitation of a patent. See also discussion in this study under copyright, below

“The three conditions must, of course, be interpreted in relation to each other. Each of the three must be presumed to mean something different from the other two, or else there would be redundancy. Normally, the order of listing can be read to suggest that an exception that complies with the first condition can nevertheless violate the second or third, and that one which complies with the first and second can still violate the third. The syntax of Article 30 supports the conclusion that an exception may be ‘limited’ and yet fail to satisfy one or both of the other two conditions. The ordering further suggests that an exception that does not ‘unreasonably conflict with normal exploitation’ could nonetheless “unreasonably prejudice the legitimate interests of the patent owner”<sup>132</sup>.

One of the typical exceptions falling under this category is the “Bolar” type of exception, discussed below.

#### 4. Revocation

Among its very selected patent provisions, the FTA deals with revocation or cancellation of patents:

Article 17.9.5: “A Party may revoke or cancel a patent only when grounds exist that would have justified a refusal to grant the patent.”

Apparently, the only causes for revocation or cancellation of a patent would be that the patent was not new, obvious or not useful. A footnote clarifies that fraud in obtaining the patent may also be cause for revocation. One should ask if these are the only causes for revocation or if the Parties would be allowed to establish different grounds for such cancellation, such as inequitable conduct<sup>133</sup> or misrepresentation. In fact, other trade agreements have been more liberal and have broadened the causes for revocation recognized in the FTA. For instance, the US agreements with CAFTA<sup>134</sup> and Australia allow for these other two causes of revocation, while the agreement with Singapore went even further by providing that the patent may be revoked, besides for fraud and misrepresentation, on grounds that pertain to the insufficiency of or unauthorized amendments to the patent specification, or nondisclosure of the invention.

A related issue that might arise is whether Parties may refuse a patent on other grounds than the requirements of

patentability spelled out in the TRIPS Agreement and reproduced in the FTA. For example, are the Parties free to provide in their patent laws that when a patent is filed, the applicant must disclose the origin of the genetic resources related to the invention? Or, the prior and informed consent of the owners of the genetic resources? These are important questions as countries are discussing whether the principles of the Convention on Biological Diversity are TRIPS compatible and should be incorporated in domestic patent laws. At least there are no specific and express provisions in the FTA excluding the establishment of such requirements.

In addition, the TRIPS Agreement (Article 29) does not exclude these possibilities of establishing the requirement for disclosure by allowing members to request applicants to indicate the best mode for carrying out the invention.

Correa criticizes the revocation provision in the FTA, among others, because it might further restrict the authority recognized in the Paris Convention for the forfeiture of the patent in cases where the grant of compulsory licenses would not have been sufficient to prevent abuses that might result from the exercise of the exclusive rights conferred by the patent or for lack of payment of annual fees<sup>135</sup>. There are no provisions in the FTA that prevent Parties from granting compulsory licences in accordance with Article 31, TRIPS. A separate issue relates to the manner in which the granting of compulsory licenses might be conditioned by other provisions of the FTA, as discussed in other sections of this study.

In brief, the FTA leaves more questions open than clear answers to the standards that should prevail on issues related to revocation and cancellation of patents.

#### 5. Delays in the granting of patents

The FTA provides for an extension of the patent term to compensate for unreasonable delays in granting the patent:

Article 17.9: “Each Party shall provide for the adjustment of the term of a patent, at the request of the patent owner, to compensate for unreasonable delays that occur in granting the patent. For the purposes of this paragraph, an unreasonable delay shall be understood to include a delay in the issuance of the patent of more than five years from the date of filing of the application in the Party, or three

<sup>132</sup>Para 7.21. The report of the drafting committee for Article 9(2) of the Berne Convention, from which this text was derived, concluded that measures not in conflict with “normal exploitation” could nonetheless prejudice the “legitimate interests” of the copyright owner. The report is quoted in para. 7.72 of the EC-Canada panel’s report.

<sup>133</sup>Although the penalty for inequitable conduct in the USA renders the patent unenforceable, courts have found that cases of inequitable conduct (e.g. submarine patenting) may provide grounds for an antitrust claim against the patent right holder. See *Discovision Assoc. v. Disc Mfg. Inc.*, 42 U.S.P.Q.2d 1749 (D. Del. 1997) and *Merges et al.*, 2000

<sup>134</sup>Article 15.9.4, CAFTA: “Without prejudice to

Article 5.A(3) of the Paris Convention for the Protection of Industrial Property (1967), each Party shall provide that a patent may be revoked or cancelled only on grounds that would have justified a refusal to grant the patent. However, a Party may also provide that fraud, misrepresentation, or inequitable conduct may be the basis for revoking, canceling, or holding a patent unenforceable.” The US industry reacted to this provision in the following terms: “CAFTA restricts, in Article 15.9.4, the grounds for the revocation of a patent to those limited to the patentability of the invention. Notwithstanding that IFAC-3 is disappointed that it does not require CAFTA countries to also provide that fraud, misrepresentation or inequitable conduct may be the basis for revoking,

canceling or holding a patent unenforceable, it urges the U.S. Government to work with the CAFTA governments in the implementation of this provision to ensure that it is consistent with U.S. practice. For example, the possibility of preventing enforcement of a patent due to actions that are found to constitute inequitable conduct should be limited to acts that are material to the patentability of the invention. Since CAFTA countries are already members of the Paris Convention, IFAC-3 notes that the reference to the obligations contained in Article 5.A (3) of the Paris Convention does not add or detract from the obligation contained in the FTA Article 15.9.4.” See IFAC-3-CAFTA.

<sup>135</sup>Correa, March 2004



years after a request for examination of the application has been made, whichever is later, provided that periods of time attributable to actions of the patent applicant need not be included in the determination of such delays.”

This provision has its origins in the US Drug Price Competition and Patent Term Restoration Act of 1984 (Hatch–Waxman Act), which together with granting an extension of the patent term for administrative delays in the FDA, awarded extensions for delays during the granting of the patent<sup>136</sup>.

A closer examination of the FTA provision on adjustment of the term of a patent suggests:

- The FTA does not provide for an automatic extension of the term of the patent due to unreasonable delays. The adjustment of the term will be made only after the patent owner makes a request to that effect.
- The FTA provides that an unreasonable delay shall be understood to include a delay of more than five years from the filing of the patent or three years after a request for examination of the application. This means that if less than five years pass between the filing or the request for examination and the granting of the patent, there will be no extensions. Only at the end of the fifth or third year, as the case may be, will the delay start to be counted.
- The periods of time attributable to actions of the patent applicant need not be included in the determination of such delays. So, at the end of the fifth year after filing or at the third year after the request for examination of the patent, the Parties are allowed to deduct the delays that may be attributed to the patent owner.
- According to Chilean sources, the five and three years could be explained by the process of approval of a pharmaceutical patent in Chile which lasts, on average, less than 5 years, including actions by the applicant. Thus, according to these sources, the extension of the term of the patent would in practice rarely apply.
- Although the immediate antecedent of this provision on term adjustment is the Hatch–Waxman Act, in the case of the FTA it applies to all kinds of inventions. Its place in the Agreement is under the provisions dealing with patents in general; so one should ask whether the Parties are allowed to extend the term of protection only to certain kinds of products, as is the current situation in the US law. The Hatch-Waxman Act limits the extension

*“to patents on products (or processes of making or using the same) that are human drug products, medical devices, food additives, and colour additives subject to*

*regulation under the Food and Drug Administration”*<sup>137</sup>.

- The FTA provides that the patent owner shall be compensated for delays, but it says nothing about how the compensation will be computed or the limitations that such compensation would have. Would it mean an equivalent time to offset that lost for the actual delays in the approval process or any other system of indemnity? The FTA does not provide either for limitations to the extra time to be awarded as compensation. In the US law the restoration period is limited to five years.
- As discussed elsewhere in this paper, the patent term may also be extended to compensate for “unreasonable curtailment of the patent term as a result of the marketing approval process”. At least in the USA there is a close relation between both extension terms (e.g. “the effective patent term including the restoration period may not exceed 14 years<sup>138</sup> following FDA approval of the new drug.”)<sup>139</sup>. In the case of Chile, this calls for appropriate domestic regulations.
- Free trade agreements signed by the USA have similar provisions to those of the FTA, the only variation being the years to be considered as unreasonable delay. Instead of five and three years, respectively, as in the FTA, the US agreements with Singapore and Australia refer to four and two years, respectively, while CAFTA is identical to the FTA<sup>140</sup>.

## 6. Regulatory exemption

As part of the limited exceptions to the exclusive rights of the right holder, discussed above, the FTA permits Parties to make use of what is known as the “Bolar Exemption” or “Regulatory exemption” under some conditions

Article 17.9.4: “If a Party permits the use by a third party of the subject matter of a subsisting patent to support an application for marketing approval or sanitary permit of a pharmaceutical product, the Party shall provide that any product produced under such authority shall not be made, used, or sold in the territory of the Party other than for purposes related to meeting requirements for marketing approval or the sanitary permit, and if export is permitted, the product shall only be exported outside the territory of the Party for purposes of meeting requirements for issuing marketing approval or sanitary permits in the exporting Party.”

The purpose of the Bolar exemption is to accelerate the introduction of generic medicines into the market, as soon as the term of protection of the patent of an original drug expires. It allows the generic competitor to manufacture the drug dur-

<sup>136</sup>Title 35 U.S.C. § 156

<sup>137</sup>Chisum, 2001, § 16.04[5] (1997)

<sup>138</sup>Title 35 U.S.C. § 156(c)(3)

<sup>139</sup>See Chisum, 2001, p 1210, on Merck & Co., Inc. v. Kessler, 80 F.3d 1543, 1547 (Fed. Cir.

1996). See Chisum. Merck also pointed out that “If the term of the patent has received such an extension, the patent may not be given another restoration extension even for another drug covered by the patent whose marketing also is delayed by reasons of FDA procedures.”

<sup>140</sup>In the case of the US-Singapore FTA there is another provision regarding a five-year extension of the patent term when a patent is granted based on the examination conducted in another country. The extension will be awarded when at the same time it has been awarded in the other country

ing the patent term protection, without considering this as an infringement of the patent. Otherwise, the generic producer would have to wait until the patent expires to produce the copy, and just then ask for the approval of the drug by the health authorities. This would amount to a *de facto* extension of the patent term, as the competing drugs would have to wait for a number of years to make it into the market.

The Bolar exception has its origin in US law. In fact, the provisions of the US law where enacted after the Federal Circuit Court considered that a generic manufacturer had infringed upon a valid patent when it imported the patented drug and began testing it, even if it was testing it only to obtain the sanitary permit from the Food and Drug Administration (FDA)<sup>141</sup>. Thus, US Congress responded by enacting the Hatch-Waxman Act<sup>142</sup>, which sanctions this exemption<sup>143</sup>. There is no equivalent provision in the Chilean law that allows for this exemption<sup>144</sup>. The Bolar provision clarifies or establishes an exemption that has turned into common practice in many countries seeking to facilitate access to medicines and enhance competition in this area.

There are two aspects to the FTA provision dealing with this matter. One allows a third party to use the subject matter of a patent for purposes of obtaining the sanitary permit or marketing approval of a pharmaceutical product. The other allows the third party to use the subject matter of a patent when the product will be exported, but only to meet requirements for issuing marketing approval or sanitary permits in the exporting party.

The FTA appears in some sense to reflect the discretion recognized for WTO Members in the dispute settlement Panel in *Canada – Patent Protection of Pharmaceutical Products*<sup>145</sup>.

### 3.2.2 Regulated products

Together with the provision on the adjustment of the patent term of protection to compensate for unreasonable delays, examined above, the measures on certain regulated products are, without doubt, one of the most controversial areas of the FTA IP Chapter. This section of the FTA deals mainly with the protection and possible use of undisclosed information concerning the safety and efficacy of pharmaceutical and agricultural chemical products which utilize a new chemical entity, so called regulated products.

Since the NAFTA<sup>146</sup> negotiations, the USA has been concerned with special provisions for agricultural chemical and pharmaceutical products. In NAFTA, the provisions apply to “undisclosed test or other data” necessary to determine safety and efficacy of “products that utilize new chemical entities” the origination of which “involves considerable effort”. No person other than the one that has submitted the data may rely on such data to support an application for the marketing approval of the product concerned, during a reasonable period of time, of no less than 5 and 10 years.

The USA has not followed the same approach to this matter with its different trade partners (Box 8). With Chile, the issue of regulated products was a controversial matter during the entire negotiations and was the subject of intense discussions during the second half of the negotiations. The political and economic implications of these questions were discussed earlier in this study. In Chile, representatives from foreign and domestic laboratories were unable to reach any agreed solution on how to deal with this sensitive issue despite the mediation efforts of government officials. Reportedly, in the final phase of the negotiations the international research-based pharmaceutical industry put great effort and pressure to reach a favourable outcome reflecting their original concerns on this important topic.

Initial US proposals, according to Chilean sources, were more complex and contained a broader scope of additional protection for pharmaceutical products than those finally negotiated and incorporated in the FTA. Chile introduced important limitations to this provision in the final steps of the negotiations.

#### 1. Protection of undisclosed information

The first part of the relevant FTA provision states that

Article 17.10.1: “If a Party requires the submission of undisclosed information concerning the safety and efficacy of a pharmaceutical or agricultural chemical product which utilizes a new chemical entity, which product has not been yet previously approved, to grant a marketing approval or sanitary permit for such product, the Party shall not permit third parties not having the consent of the person providing the information to market a product based on this new chemical entity, on the basis of the approval granted to the party submitting such information.

<sup>141</sup>Roche Products, Inc. V. Bolar Pharmaceutical Co., 733 F.2d 858 (Fed. Cir. 1984)

<sup>142</sup>The Drug Price Competition and Patent Term Restoration Act of 1984, among others incorporated Title 35 U.S.C. § 271(e)(1), which exempts from infringement the making, selling, or using of a patented invention solely for purposes of submitting information to the FDA

<sup>143</sup>In the same sense, the Federal Circuit confirmed this in *Telectronics Pacing Systems, Inc. v. Ventritex, Inc.*, 982 F.2d 1520, 1525 (Fed. Cir. 1992)

<sup>144</sup>In Chile, the Bolar exception has not been up to now a major demand of the domestic pharmaceutical industry

<sup>145</sup>Abbott, 2004, commenting on a parallel in CAFTA, points out that this latter agreement provides, “that marketing approval may only be effective ‘once the patent expires’. Under the TRIPS Agreement ‘patent expiration’ is not the sole mechanism for authorized use of an invention without the consent of the patent holder, including authorizations granted under compulsory license. Subparagraph 5 would not appear to contemplate

approval of a medicine for export under the Decision on Implementation of Paragraph 6. In addition, findings of non-infringement or invalidity of a patent should permit exercise of marketing rights following regulatory approval. Such rights are recognized under the U.S. regulatory review ‘Bolar’ exception. Also, the subparagraph 5 interpretation of Article 30 of the TRIPS Agreement must be read in contemplation of the limitations set forth in Article 15.10.”

<sup>146</sup>Article 1711.5, NAFTA

### **Box 8: Regulated products in recent US trade agreements**

The free trade agreement with Jordan (Article 4.22.) requires the protection of undisclosed test or other data submitted to obtain marketing approval for agricultural chemical and pharmaceutical products that utilize new chemical entities, the origination of which “involves a considerable effort.” There is no reference to prohibiting the use of such information for a market approval application in favour of a third party.

The Singapore agreement (Article 16.8.1) goes a step further by recognizing that

“[I]f a Party requires the submission of information concerning the safety and efficacy of a pharmaceutical or agricultural chemical product prior to permitting the marketing of such product, the Party shall not permit third parties not having the consent of the party providing the information to market the same or a similar product on the basis of the approval granted to the party submitting such information for a period of at least five years from the date of approval for a pharmaceutical product and ten years from the date of approval for an agricultural chemical product.” Note that the protection is not limited to products with new chemical entities.

The US agreement with Australia contains a set of complex provisions which differentiate between pharmaceutical and agricultural chemical products. The agreement provides that

“[I]f a Party requires, as a condition of approving the marketing of a new pharmaceutical product, the submission of undisclosed test or other data concerning safety or efficacy of the product, the Party shall not permit third persons, without the consent of the person who provided such information, to market a same or similar product on the basis of (1) such information or (2) the approval granted to the person who submitted such information for at least five years from the date of marketing approval in the Party.” (Article 17.10.1(a))

For agricultural chemical products the agreement states that

“[I]f a Party requires, as a condition of approving the marketing of a new agricultural chemical product, including certain new uses of the same product, the submission of undisclosed test or other data concerning safety or efficacy of that product, the Party shall not permit third persons, without the consent of the person who provided such information, to market a same or similar product on the basis of (1) such information or (2) the approval granted to the person who submitted such information for ten years from the date of the marketing approval of the new agricultural chemical product in the Party.” (Article 10.10.1(b)).

The US agreement with Australia defines a new product as

“...one that does not contain a chemical entity that has been previously approved in the Party” (Article 17.10.1(d)). The agreement also contains provisions on the protection of “new clinical information (other than related to bioequivalency)” and “evidence of prior approval of the product in another territory which is essential to the approval of the pharmaceutical product.” (Article 17.10.2).

A Party shall maintain this prohibition for a period of at least five years from the date of approval for a pharmaceutical product and ten years from the date of approval for an agricultural chemical product. Each Party shall protect such information against disclosure except where necessary to protect the public.”

In some countries, it has been a practice that information concerning safety and efficacy of products subject to marketing approval or sanitary permit is normally submitted by the first undertaking that applied for such an authorization or permit. Subsequent applicants regarding the same or similar products will benefit from the information submitted by the first applicant and the competent authorities will base their decision for granting the marketing approval or the sanitary permit on the undisclosed information provided by that first applicant.

The purpose of the FTA provision is precisely to avoid such a practice and to oblige any person who applies for marketing approval or sanitary permit to submit to the competent authority, its own confidential information related to the safety and efficacy regarding the pharmaceutical and agro-chemical products which utilize a new chemical entity for which marketing approval or sanitary permit is requested.

This important provision in the FTA suggests:

- The provision aims at implementing the TRIPS Agreement (Article 39.3) in a particular way and does in practice expand its coverage. The latter agreement obliges WTO Members, as a condition to approve marketing of pharmaceutical and agro-chemical products which utilize a new chemical entity, to protect against unfair commercial use, undisclosed test or other data the origination of which involves a considerable effort. The use by the competent authorities of the data provided for by the first applicant of the marketing approval of a specific product could not be considered as “unfair commercial use”.
- It refers to “undisclosed information”, which seems to include a drafting closer to NAFTA<sup>147</sup>. This was perceived as an important accomplishment in the negotiations because the original US proposals referred in general to “information”, whether undisclosed or not<sup>148</sup>. In addition, as the FTA does not provide for a definition of “undisclosed information” the one in TRIPS (Article 39.2) should apply. This in itself is an important limitation on the scope of this provision. However, the concept of “undisclosed information” in the FTA seems to be broader than “undisclosed data” (as e.g. in CAFTA) or

<sup>147</sup>Article 1711.5, NAFTA.

<sup>148</sup>See Article 16.8.1, US–Singapore FTA and

Article 15.10.1, US–Morocco FTA, which do not limit the protection to “undisclosed” information

“undisclosed test or other data” (as for example in the US agreements with Australia and Jordan), but not so wide as simple “information” (as in the case of Singapore).

- The FTA standard applies only in case where the pharmaceutical or agro-chemical product utilizes a new chemical entity. When it utilizes a known chemical entity it does not apply. Again, this could be seen as a success for Chile because, reportedly, earlier US proposals dealt with any pharmaceutical and agro-chemical product whether or not it utilized a new chemical entity<sup>149</sup>. The definition of the meaning of a “new chemical product” is left to each Party.
- The prohibition for using this undisclosed information to base marketing approval to third parties should be maintained for a period of at least five years from the date of approval of a pharmaceutical product and ten years from the date of approval of an agricultural chemical product. This protection period has been a long-standing US position on this matter with regard to the implementation of Article 39.3, TRIPS, and was advocated without success during the Uruguay Round.
- Should the period of five or ten years for the protection of the undisclosed information still be applied in case where the information has become public or it has lost its commercial value or it has not been subject to reasonable steps to keep it in secret? <sup>150</sup> It is difficult to argue that even in those cases where the information has become public, the Parties shall continue to be obliged not to use that information as grounds for marketing approval. According to the drafting of the FTA the time frames apply to “undisclosed information” and do not extend to “disclosed information”.
- Each Party shall protect such undisclosed information against disclosure “except where necessary to protect the public”. No further explanation on the scope of this provision has been added, so it should correspond to the domestic legislation to determine those situations. The same expressions are used in Article 39.3, TRIPS.

## 2. Further obligations about undisclosed information

The second part of the relevant FTA provision<sup>151</sup> contains three additional important obligations to the Parties about pharmaceutical products, which are subject to a patent:

- An extension of the patent term shall be available to compensate the patent owner for unreasonable curtailment of the patent term as a result of the marketing approval process. There is no definition in the FTA of

what “unreasonable curtailment of the patent” means, as is the case with the provision on the adjustment of term of a patent (Article 17.9.6.), examined earlier. In this situation such a definition should be provided by the respective domestic legislation. The FTA does not set limits for the compensatory extension. It should be understood that it is up to the domestic legislation of each Party – as is the case in US law – to establish a reasonable period of time for such compensatory extension.

- The identity of any third party requesting marketing approval of a patented pharmaceutical product shall be available to the patent owner, during the term of the patent. No formality for such availability is contemplated in the FTA, which means that it is up to the domestic legislation to establish the appropriate procedure. This is just a mechanism for publicity and transparency so that patent owners are informed of such requests to allow, if necessary, the timely exercise of their rights.
- A Party shall not grant “marketing approval” to any third party prior to the expiration of the patent term, unless by “consent or acquiescence” of the patent owner. In fact, this means an extension of the protection afforded to the patent owner, which goes beyond the TRIPS Agreement. This “linkage” between market approvals and the consent or acquiescence of the patentee creates a number of ambiguities and might bring into question, among others, the ability to actually exercise the flexibilities in TRIPS, such as the granting of compulsory licences<sup>152</sup>. The bilateral trade agreements signed by the USA with Australia, CAFTA, Jordan and Singapore do not differentiate between “marketing approval” and “sanitary permit” as in the case of the FTA<sup>153</sup>.

In CAFTA, this “linkage” is made more explicit and even includes references to market approvals “in another country” – an extension not provided for in the FTA. Commenting on CAFTA, Abbott concludes that

“Yet perhaps the most problematic provision from a TRIPS flexibility standpoint is Article 15:10(3)(a) which provides that a third party (generic) producer, relying on ‘evidence or information concerning the safety and efficacy of a product that was previously approved, such as evidence of prior marketing approval in the Party or in another territory’, must be prevented from obtaining marketing approval such as will allow that third party to market the

<sup>149</sup>Again, Singapore did not limit the protection to products with new chemical entities

<sup>150</sup>Article 39.2, TRIPS

<sup>151</sup>Article 17.10.2, FTA

<sup>152</sup>Correa, 2004

<sup>153</sup>In fact, there are two provisions in the FTA dealing with regulated products. The first provision

(Article 17.10.1), states that the protection is awarded to undisclosed information for the grant of marketing approvals or sanitary permits. The second provision (Article 17.10.2), establishes the relation between regulated products and patents referring exclusively to “marketing approvals”. A logical interpretation should lead to the conclusion that the parties probably meant different things in the use of the terms “marketing approval” and

“sanitary permits”. One expression of this might be the interpretation that if a Party grants only sanitary permits (i.e. to certify the safety and efficacy of the product), the provisions of Article 17.10.2 (that refers to marketing approval) would not apply to that Party. However, as stated in this study, the provisions of the FTA in this area derive from Article 39, TRIPS, and these refer only to marketing approvals.

product ‘during the term of that patent, unless by consent or acquiescence of the patent owner’<sup>154</sup>.

### 3.3 Copyright<sup>155</sup> and related rights

The FTA may be the first trade agreement signed by the USA where copyright and related rights are given a separate treatment<sup>156</sup>. This might be explained by the fact that countries that are party to the Rome Convention are requested to treat copyright and related rights separately, to preserve the differences between authors and related right holders. The trade agreement with Singapore that was negotiated simultaneously with the FTA treats them jointly, as is the case of the most recent agreement with Morocco. This approach appears to be favoured by US industry as illustrated by the following comments made about CAFTA:

“Industry was pleased that the Chile formulation was not repeated and it is hopeful that it will not be perpetuated in any future FTA. In the view of the industry record producers and performers should not be relegated to second-class citizenship under “related” or “neighbouring” rights regimes. In their view, the FTA with Chile perpetuates this dichotomy.”<sup>157</sup>

While both the USA and Chile have ratified the traditional conventions on copyright, including the recent WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT) of 1996, only Chile is party to the 1961 Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations. This different treatment in the FTA of copyright and related rights<sup>158</sup> reflects also, to a certain extent, the different approaches towards copyright, followed by the USA, and the continental European approach to “rights of authors,” followed by Chile<sup>159</sup>. As discussed in this section, although the FTA narrows the separation between copyright and related rights, many differences between both systems do persist.

Unlike TRIPS and the Rome Convention, the FTA does not deal with rights of Broadcasting Organizations; it refers only to rights of performers and producers of phonograms. The FTA does not deal with moral rights either.

### 3.3.1 Copyright

#### 1. Scope of protection

On protectable subject matter, the FTA does not innovate with respect to the Berne Convention or the TRIPS Agreement. Thus, the FTA applies to literary and artistic works, as understood by the Berne Convention<sup>160</sup>, including computer programs and compilations of data in accordance with TRIPS<sup>161</sup> and the WCT<sup>162</sup>. It does not provide for protection of non-original databases as in the EU<sup>163</sup> or as has been proposed in the draft text of the FTAA<sup>164</sup>.

#### 2. Reproduction right

On rights conferred, the FTA provides authors with

Article 17.5.1: “...the right to authorize or prohibit all reproductions of their works, in any manner or form, permanent or temporary (including temporary storage in electronic form).”

This reproduction right builds upon the Berne Convention<sup>165</sup> which establishes a right of reproduction of the author’s work “in any manner or form”, and on the Agreed Statement concerning Article 1(4) of the WCT, which provides that the right of reproduction set in Berne “fully appl(ies) in the digital environment, in particular to the use of works in digital form”. Though the Agreed Statement<sup>166</sup> adds that the storage of a protected work in digital form in an electronic medium constitutes a reproduction, it says nothing about temporary copies, such as those made in the RAM memory of a computer, an issue that was extensively discussed during the negotiations of the WCT, but did not make it into the final text. Here the FTA goes beyond Berne and the WCT in that it makes clear that temporary copies in electronic form are subject to the right of reproduction. But, the FTA, in a footnote to the main text, allows for the application of specific exceptions and limitations in the digital environment:

Footnote to Article 17.7.3: “For works, other than computer software, and other subject matter, such exceptions and limitations may include temporary acts of reproduction which are transient or incidental and an integral and essential part of a technological process and whose sole purpose is to enable (a) a lawful transmission in a network between third parties by an intermediary; or (b) a lawful use of a work or other subject-matter to be made; and which have no independent economic significance.”

<sup>154</sup>Abbott, 2004

<sup>155</sup>In this paper the term copyright, includes, without distinction, copyright and rights of authors

<sup>156</sup>NAFTA treats them separately but limits related rights to producers of phonograms. Though both Canada and Mexico are part of the Rome Convention, Canada became a part of it only in 1998

<sup>157</sup>IFAC-3-CAFTA, 2004

<sup>158</sup>There is a third section in the FTA under the sub-heading of “Obligations Common to Copyright and Related Rights”

<sup>159</sup>The separation of Copyright from Related Rights

in the same Chapter is not casual. In discussing the treatment given to Copyright and Related Rights in the TRIPS Agreement, Bercovitz, 2000, points out that conceptually and systematically, a very important effect was achieved towards equalization of Copyright and Related Rights by dealing with both of them in the same Section (TRIPS Part II, Section 1)

<sup>160</sup>Article 2, Berne

<sup>161</sup>Article 10, TRIPS

<sup>162</sup>Articles 4 and 5, respectively, WCT

<sup>163</sup>A bill that would provide protection for non-original databases has recently been introduced in the

US Congress. HR 3261, “Database and Collections of Information Misappropriation Act (DCIMA)

<sup>164</sup>A proposal in Article 5.3(m) of the FTAA draft text would incorporate by reference a “Treaty for the Protection of Non-Copyrightable Elements of Databases.” Such a treaty does not yet exist, but a WIPO Conference prepared a draft for further consideration in 1996.

<sup>165</sup>Article 9.1, Berne

<sup>166</sup>The Agreed Statement concerning Article 1(4) of the WCT is the only non-unanimous Statement under both the WCT and the WPPT

Because of the fundamental importance of temporary copies in the digital environment, the explicit possibility of exempting temporary copies from the right of reproduction, subject to the traditional “three-step test”<sup>167</sup>, may be important at the moment of devising appropriate IPRs policies. The rapid evolution of emerging technologies in this field explains the need for the creation of exceptions for temporary copies. For instance, the USA has dealt with this issue by creating limited exceptions, such as allowing the making of copies for machine maintenance or repair of a computer, or by exempting small copies incidental to web casting called buffer copies. Therefore, other temporary copies, besides those explicitly exempted, must follow the fair use test of Section 107 of the US Copyright Act. The EU, on the other hand, has included a blanket exception in its Directive<sup>168</sup> with a similar wording to the quoted footnote in the FTA.

The said footnote provides that the exception will not apply to computer programs, which does not mean that Parties cannot establish exceptions for those kinds of works. It simply means that, if any, exemptions for computer programs will be subject to the three-step test accepted by the FTA<sup>169</sup>.

US industry has pointed out that the language in the footnote would be inconsistent with US law and jurisprudence and would create a dangerous precedent for the industry. They adduce that it introduces concepts strange to US law, such as “transient” and “incidental”, and would subject the right of reproduction to an “economic” and “duration” test<sup>170</sup>. However, the footnote does not create an obligation to adopt the temporary copy exception, so the USA may or may not choose to implement it. It just states that the Parties are free to incorporate this exception into their domestic law.

Finally, neither the US trade agreement with CAFTA, nor those with Australia, Singapore, Morocco or Jordan have a provision similar to the FTA on a temporary copy exception to the right of reproduction.

### 3. Right of communication to the public

The FTA deals with the right of communication to the public<sup>171</sup>, in the same terms as the WCT<sup>172</sup>. Therefore this right of communication to the public covers all kinds of works<sup>173</sup>

communicated to the public by wire or wireless means, without prejudice to the Berne provisions that deal with this right. This broad right of communication is not fully covered by TRIPS.

However, the FTA provides that authors have the right to authorize or prohibit the communication to the public including

Article 17.5.2: “the making available to the public of their works in such a way that members of the public may access these works from a place and at a time individually chosen by them.”

This means that the Parties will provide for an exclusive right for interactive, on-demand, communications. This provision leaves out private communications such as sending an e-mail with copyrighted content.

### 4. Right of distribution

On the right of distribution, the FTA<sup>174</sup> practically transcribes the WCT provision on the exclusive right of making available to the public the original and copies of the works through sale or other transfer of ownership<sup>175</sup>, but omits the exhaustion of rights provision of the latter. The relevant WCT provision on exhaustion states:

“Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author.”<sup>176</sup>

Note, however, that Parties are free to determine whether they will apply a national or international regime of exhaustion of rights. This conclusion is based, among others, on the application of the non-derogation principle, discussed above. While Chile in its FTA implementing legislation<sup>177</sup>, together with establishing the right of distribution, provided for a system of international exhaustion of rights, the USA has traditionally applied a national exhaustion regime<sup>178</sup>.

While CAFTA does not deal with the issue of exhaustion of rights, the US agreement with Australia transcribed the rele-

<sup>167</sup>The so-called three-step test allows Parties to “confine limitations or exceptions to exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder”. See Article 13, TRIPS

<sup>168</sup>See Article 5 of Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonization of certain aspects of copyright and related rights in the information society

<sup>169</sup>Article 17.7.3, FTA: “Each Party shall confine limitations or exceptions to rights to certain special cases which do not conflict with a normal exploitation of the work, performance, or phonogram, and do not unreasonably prejudice the legitimate interests of the right holder”

<sup>170</sup>IFAC-3-Chile, p 9

<sup>171</sup>Article 17.5.2, FTA: “Without prejudice to the provisions of Articles 11(1)(ii), 11bis(1)(i) and (ii), 11ter(1)(ii), 14(1)(ii), and 14bis(1) of the Berne Convention for the Protection of Literary and Artistic Works (1971) (Berne Convention), each Party shall provide to authors of literary and artistic works the right to authorize or prohibit the communication to the public of their works, by wire or wireless means, including the making available to the public of their works in such a way that members of the public may access these works from a place and at a time individually chosen by them.”

<sup>172</sup>See Article 8 and the Agreed statement, WCT

<sup>173</sup>The Berne Convention did not provide for a broad right of communication to the public that encompassed all works. On the contrary, it provided for this right for only certain works and for certain kinds of communications, thus leaving out other kind of works (e.g. photographic works)

<sup>174</sup>See Article 17.3, FTA: “Each Party shall provide to authors of literary and artistic works the right to authorize the making available to the public of the original and copies of their works through sale or other transfer of ownership.”

<sup>175</sup>Article 6.1, WCT

<sup>176</sup>Article 6.2, WCT

<sup>177</sup>See Law 19.914, Articles 3.6, 3.10, 3.12 published November 19th, 2003

<sup>178</sup>The US has traditionally barred parallel imports by applying the territoriality principle of copyright (Ninth Circuit Court of Appeals in *BMG v. Perez*), but in a more recent case the US Supreme Court allowed for parallel imports if the products had been manufactured in the US (*Quality King Distributors, Inc. v. L'Anza Research International, Inc.*) Title 17 U.S.C. § 109 in relation to Title 17 U.S.C. § 602

vant provision of the WCT in a footnote to the provision on the right of making available to the public. The FTAA draft Chapter, in its turn, has a couple of provisions which would limit the flexibilities that the TRIPS Agreement, the WCT and the WPPT allow for. The FTAA proposal simply prohibits parallel imports by affording authors, performers and producers of phonograms a right of importation. A very similar provision made its way into the agreement with Jordan. A right of importation is also incorporated in NAFTA and the trade agreement between the USA and Vietnam. This is in line with the view advanced by the US industry as has been illustrated by the recent report on CAFTA<sup>179</sup> and the Industry Functional Advisory Committee (IFAC)-Chile report<sup>180</sup>.

In the FTAA an alternative proposal adopts a middle ground approach between national and international exhaustion. It suggests a system of regional exhaustion of rights, after a transition period of five years.

Finally, the distribution right (Article 17.5.3) applies only to fixed copies that can be put into circulation as tangible objects<sup>181</sup>. It does not provide for the distribution of electronic copies. Some have argued that limitations to the right of distribution, such as the doctrine of exhaustion or the first sale doctrine, do not apply to the digital transmission of lawful electronic copies, because the sender would always retain a copy of the work<sup>182</sup>. One may ask whether the Parties still have leeway to apply limitations to the distribution right for electronic copies, when together with sending an electronic copy, the sender deletes or destroys the original copy in the computer. This could be considered a transfer of ownership altogether, the same as selling a book in the analogue world. It seems that because this particular provision and its footnote are limited to the distribution right (limited to tangible objects), Parties could provide for a digital first sale<sup>183</sup>.

### 5. Term of protection

Consistent with the Berne Convention (“countries of the Union may grant a term of protection in excess of those pro-

vided” in the Treaty)<sup>184</sup>, the FTA extends copyright by 20 years for most works, to life of the author plus 70 years – up from the life of the author plus 50 years after death term of protection set in TRIPS<sup>185</sup>.

In those cases where the term of protection of a work is calculated on a basis other than the life of a natural person, such as works whose author is a legal entity, the term was set at a minimum of 70 years from the end of the calendar year of the first authorized publication of the work, or failing such authorized publication within 50 years from the creation of the work, at a minimum of 70 years from the end of the calendar year of the creation of the work. In the FTA then, the USA accepted lesser times of protection than those prevailing in its domestic law. In fact, in the USA when the work is to be calculated on a basis other than the life of a natural person, the term shall be not less than 95 years from the end of the calendar year of the first authorized publication of the work, or failing such authorized publication within 25 years from the creation of the work, not less than 120 years from the end of the calendar year of the creation of the work, performance or phonogram. In general, industry welcomed the approach taken in the FTA and subsequently by CAFTA<sup>186</sup>.

For photographic works, the general rule for most countries is still the 25-year protection from the making of the work, provided for in the Berne Convention<sup>187</sup>. Parties to the WCT agreed to modify the Berne/TRIPS standard by stating that they would “not apply the provisions of Article 7(4) of the Berne Convention”<sup>188</sup>. Therefore, the term of protection of photographic works went from 25 years from the making of the work, to life of the author plus 50 years, which is the general rule in Berne. The FTA again extends this term of protection beyond that in the WCT, by 20 years. Hence, photographic works are protected by the general 70-year rule, as explained above. While the USA already protected this type of work by the standard in the FTA, Chile protected them only for the life of the author plus 50 years.

<sup>179</sup> “Unfortunately, the text does not contain a provision...providing for the right of a copyright owner to prevent parallel imports of its products manufactured outside a CAFTA member country that are not intended for distribution in that country. The failure to obtain such important protection is a deficiency in the copyright text.” IFAC-3-CAFTA, at p 11

<sup>180</sup> “Unfortunately, the text does not contain a provision which follows U.S. law (17 USC §602) providing for the right of a copyright owner to prevent parallel imports of its products manufactured outside Chile that are not intended for distribution in that country. The failure to obtain such important protection is a deficiency in the copyright text.” IFAC-3-Chile, at p 12

<sup>181</sup>Footnote 10, Article 17.5.3, FTA: “The expressions “copies” and “original and copies”, being subject to the right of distribution under this paragraph, refer exclusively to fixed copies that can be

put into circulation as tangible objects, i.e., for this purpose, “copies” means physical copies”

<sup>182</sup>In addition to the copies in the recipient and sender’s computers, transient copies are made in the computer networks between the sender and the recipient’s computers. Therefore, the reproduction right would also be involved and exceptions to this right should be in place if allowing for a digital first sale doctrine

<sup>183</sup>This issue has been extensively discussed in the US, where the Government declined to endorse a “digital first sale doctrine” to modify U.S.C. Title 17 § 109, among others, “unless a forward-and delete technology is employed to automatically delete the sender’s copy”. Another strong argument against carving out an exemption was that the transmission of works interferes with the exclusive right of reproduction. See the US Copyright Office’s Executive Summary of the Digital Millennium Copyright Act Section 104

Report, at [http://www.copyright.gov/reports/studies/dmca/dmca\\_executive.html](http://www.copyright.gov/reports/studies/dmca/dmca_executive.html)

<sup>184</sup>Article 7.6, Berne Convention.

<sup>185</sup>Articles 9.1 and 12, TRIPS

<sup>186</sup>“In a major advance, and continuing the precedents established in the Singapore and Chile FTAs, CAFTA countries have agreed to extend their terms of protection closer to that in the U.S. – to life of the author plus 70 years for most works. While industry sought to have the term of protection for sound recordings and audiovisual works extended from 50 years from publication to a term matching the U.S. law’s 95 years, a compromise was struck at 70 years. We urge that future agreements move that level to the full 95 years (Article 15.5.4).” IFAC-3-CAFTA Report, 2004, p11

<sup>187</sup>Article 7.4, Berne Convention

<sup>188</sup>Article 9, WCT

It is striking that the US position for an extension of the term of copyright protection was being advocated at the same time as the US Supreme Court was reviewing the 1998 Copyright Term Extension Act (CTEA). The dispute involved big entertainment companies on the one hand and a coalition of Internet publishers on the other supported by academia<sup>189</sup>. The US Supreme Court finally upheld the US law against allegations of unconstitutionality. Internet publishers seeking to publish, *inter alia*, early Mickey Mouse cartoons, jazz classics and novels of F. Scott Fitzgerald had argued that the extension of all copyright terms by 20 years violated the constitutional clause according to which copyright may be issued “for limited times” only. The principal argument of the opponents of copyright term extension was that the extension had the effect of delaying entry into the public domain of works created under a previous (shorter-term) regime. Since the authors of existing copyrighted works were not being given any new incentive to create, the extension had the primary effect of limiting works in the public domain, and this was contrary to the objectives of the copyright clause of the Constitution<sup>190</sup>.

Several countries in Latin America have increased the terms of protection of copyrighted works at levels similar to the ones agreed in the FTA. For example, Mexico affords life of the author plus 75; and Brazil, Ecuador, and Peru, life of the author plus 70. These extended terms of protection, at least in the case of countries like Brazil and Mexico, may find an explanation in the huge cultural industries prevalent in those countries. Smaller economies should evaluate the costs of increasing by 20 years the minimum term of protection stated in TRIPS, as thousands of works, performances and phonograms would be prevented from falling into the public domain.

### 3.3.2 Related rights

#### 1. Scope of related rights

As reviewed above, related rights are treated separately from copyright. This does not mean that there are no similarities between them. Indeed, for the right of reproduction and the right of distribution (making available to the public) they are

treated just the same for authors, performers<sup>191</sup> and producers of phonograms. As for the rights of reproduction and distribution for performers and producers the wording is drawn from the WPPT<sup>192</sup>.

On the right of communication to the public<sup>193</sup> of related rights, the standard in the FTA is the same as for copyright, as discussed above. Together with establishing the right of communication of fixed performances<sup>194</sup> or phonograms<sup>195</sup>, including the interactive on-demand communications, the FTA preserves some exceptions and limitations allowed for under previous treaties. Parties are allowed to provide for exemptions for

Article 17.6.5 (b): “...broadcasting or communication to the public of performances or phonograms through analogue communication and free over-the-air broadcasting, and the exceptions or limitations to this right for such activities, shall be a matter of domestic law. Each Party may adopt exceptions and limitations, including compulsory licenses, to the right to authorize or prohibit the broadcasting or communication to the public of performances or phonograms in respect of other non-interactive transmissions in accordance with Article 17.7(3). Such compulsory licenses shall not prejudice the right of the performer or producer of a phonogram to obtain equitable remuneration.”

In Chile, the law gives performers and producers of phonograms<sup>196</sup> a right of equitable remuneration for the broadcasting<sup>197</sup> of their performances and phonograms, while the USA does not grant equivalent rights.

The FTA underlines that the enjoyment and exercise of the rights of performers and producers of phonograms are not subject to any formality. This is similar to the WPPT<sup>198</sup> that corresponds, on its part, to a parallel provision of the Berne Convention<sup>199</sup>, also incorporated in the TRIPS Agreement<sup>200</sup>.

#### 2. Term of protection

In a similar provision to the one in the copyright section, performers and producers of phonograms are granted a minimum of 70 years from the end of the calendar year of the first

<sup>189</sup>Stanford professor Lawrence Lessig led the case. See Lessig, 2004

<sup>190</sup>See Eldred et al. v. Ashcroft 537 U.S. 2003 and comments in the UNCTAD-ICTSD, *Resource Book*, Part Two, chapter 2.1. For full information on the case and efforts to overturn the CTEA, see <http://eldred.cc/>

<sup>191</sup>The FTA contains a number of definitions in Article 17.6.8. They are the same as the ones in Article 2 of the WPPT, which in its turn, are very similar to the definitions in the Rome Convention, with certain modifications necessary to make them operative in the digital age. Accordingly, “performers means actors, singers, musicians, dancers, and other persons who act, sing, deliver, declaim, play in, interpret, or otherwise perform literary or artistic works or expressions of folklore.”

<sup>192</sup>Articles 7, 8 11 and 12, WPPT

<sup>193</sup>Communication to the public of a performance

or a phonogram means the transmission to the public by any medium, otherwise than by broadcasting, of sounds of a performance or the sounds or the representations of sounds fixed in a phonogram. For the purposes of Article 17.6 (5), FTA, “communication to the public” includes making the sounds or representations of sounds fixed in a phonogram audible to the public

<sup>194</sup>Fixation means the embodiment of sounds, or of the representations thereof, from which they can be perceived, reproduced, or communicated through a device, Article 17.6.8 (c), FTA

<sup>195</sup>Phonogram means the fixation of the sounds of a performance or of other sounds, or of a representation of sounds, other than in the form of a fixation incorporated in a cinematographic or other audiovisual work, Article 17.6.8(b), FTA

<sup>196</sup>Producer of a phonogram means the person, or the legal entity, who or which takes the initiative

and has the responsibility for the first fixation of the sounds of a performance or other sounds, or the representations of sounds, Article 17.6.8(d), FTA

<sup>197</sup>Broadcasting means the transmission by wireless means for public reception of sounds or of images and sounds or of the representations thereof; such transmission by satellite is also broadcasting; transmission of encrypted signals is broadcasting where the means for decrypting are provided to the public by the broadcasting organization or with its consent, Article 17.6.8(f), FTA

<sup>198</sup>Article 20, WPPT

<sup>199</sup>Article 5.2, Berne

<sup>200</sup>Article 62.1, TRIPS, allows Members to require formalities as condition of acquisition or maintenance of all IPRs in the Agreement, save for copyright, and related rights covered in the Agreement



authorized publication of the performance or phonogram, or failing such authorized publication, within 50 years from the fixation of the performance or phonogram, a minimum of 70 years from the end of the calendar year of the fixation of the performance or phonogram. This provision applies when the terms are to be calculated on a basis other than the life of a natural person. This would normally be the case of collective works, works made for hire in the USA and computer and cinematographic works in Chile.

In brief, this increase in the term of protection means that, in less than 10 years, the term of protection of related rights has gone up from 20 years after the fixation, the performance, or the broadcast, recognized by the Rome Convention, to 50 years from fixation or performance under TRIPS, to 70 years in the FTA. Though the USA already provided for even longer terms of protection<sup>201</sup>, Chile's Copyright Law granted only 50 years to performers and producers of phonograms<sup>202</sup>. Chile, in its December 2003 FTA implementation law, already amended the terms of protection, as the latter did not provide for transition periods on this matter.

### 3.3.3 Obligations common to copyright and related rights

Although not as explicitly as in the US agreements with CAFTA and Australia, the FTA narrows the asymmetries between copyright and related rights. As pointed out earlier, Chile follows a continental European tradition where authors, as the original creators of the works, are afforded stronger protection than that granted to performers and producers of phonograms. This dichotomy was not well appreciated by US industry, which in a comparison with the outcome of CAFTA stated:

“The CAFTA text includes a provision (Article 15.5.3) that makes clear that there is no hierarchy of rights between those of authors and those of record producers. This is a welcome clarification of dangerous provisions in some Latin American copyright laws (such as in Chile) and sets a good precedent with other Latin countries and in the FTAA.”<sup>203</sup>

#### 1. Authorizations

The relevant provision on authorizations provides that:

Article 17.7.1: “Each Party shall establish that in cases where authorization is needed from both the author of a

work embodied in a phonogram and a performer or producer owning rights in the phonogram, the need for the authorization of the author does not cease to exist because the authorization of the performer and producer is also required. Likewise, each Party shall establish that in cases where authorization is needed from both the author of a work embodied in a phonogram and a performer or producer owning rights in the phonogram, the need for the authorization of the performer or producer does not cease to exist because the authorization of the author is also required<sup>204</sup>.

Prior to the implementation of the FTA, in December 2003, Chile's Copyright Law still provided that when the interest of an author in a phonogram conflicted with the interest of the producer of the phonogram, regarding the public performance of the phonogram, the author would always prevail over the producer. After the implementation law was enacted, this provision was amended in order to erase such hierarchy<sup>205</sup>.

#### 2. Economic rights

The FTA, in what again seems to be a bridge between copyright and related rights, provides for freedom of contract with respect to economic or patrimonial rights, as opposed to moral rights<sup>206</sup>. It also states that the licensee and the employer in the case of works made for hire will be able to fully exercise the same rights as the original creator of the work (licensor or employee). The relevant provision states that

Article 17.7.2: “...any person owning any economic right, i.e., not a moral right, may freely and separately transfer such right by contract; and any person who has acquired or owns any such economic right by virtue of a contract, including contracts of employment underlying the creation of works and phonograms, shall be permitted to exercise that right in its own name and enjoy fully the benefits derived from that right.”

However, despite the apparent freedom of contract and the general rule that the employer will be able to fully exercise rights, the FTA adds that each Party may establish:

- “(i) which contracts of employment underlying the creation of works or phonograms shall, in the absence of a written agreement, result in a transfer of economic rights by operation of law; and
- (ii) reasonable limits to the provisions ... to protect the interests of the original right holders, taking into account

<sup>201</sup>The US has an intricate system of counting duration of copyright, depending on whether the works were made before or after the dates of certain amendments to the Copyright Act. For works whose author is a legal entity, for works made for hire, for anonymous and for pseudonymous works, the duration is the shorter of 95 years from publication, or 120 years from creation

<sup>202</sup>In 1993, the EU also increased the terms of protection of related rights to 50 years. See Council

Directive 93/98/EEC of 29 October 1993 harmonizing the term of protection of copyright and certain related rights

<sup>203</sup>IFAC-3-CAFTA, 2004, p 11

<sup>204</sup>This provision mirrors the Agreed Statement to Article 1, WPPT

<sup>205</sup>Article 65 Para. 2 of Chile's Copyright Law (Ley No.17.336) also reflects this hierarchy: “Nothing in the provisions of this law with respect to related

rights may be interpreted in detriment of the protection that it provides to authors.”

<sup>206</sup>Chile provides for strong protection of moral rights through its Copyright Law (Ley 17.336 arts. 14-16), while the USA has limited federal protection only for works of visual arts (Title 17 U.S.C. §§ 101, 106 A) and through state laws (most States follow either the California or the New York statutes)

the legitimate interests of the transferees<sup>207</sup>.

The importance of this provision lies in that it reflects the tensions between the common law system of the USA and the continental European system followed by Chile:

- In the USA, under the doctrine of “works made for hire”, the employer or the person for whom the work was prepared is considered to be the author, except when “the parties have expressly agreed otherwise in a written instrument signed by them”<sup>208</sup>. In Chile, contrary to the USA, the general rule is that authorship always rests with the original creator of the work, save for some very limited exceptions in the case of computer programs, cinematographic works, and works made by government employees. The Parties in the FTA preserved their faculty to determine in which contracts there will be an automatic transfer of rights from the employee to the employer.
- The Parties preserved a limited authority to reasonably limit the freedom of contract. This may be explained because in Chile, besides moral rights, some economic rights are inalienable, among others, the *droit de suite* for painters, sculptors and draughtsman to receive at least 5% of future sales of his/her works<sup>209</sup>.
- Neither NAFTA nor CAFTA have provisions that limit the freedom of contract or the automatic transferring of authorship that rests with the employer. Although the US agreement with Australia does not have *droit de suite*<sup>210</sup> it left that option open by appropriate reference to the Berne Convention.

### 3. Limitations or exceptions

The FTA allows for limitations and exceptions to rights for

Article 17.7.3: “certain special cases which do not conflict with a normal exploitation of the work, performance, or phonogram, and do not unreasonably prejudice the legitimate interests of the right holder”

in the same sense as the “three-step rule” provided respectively, in TRIPS (Article 13), the Berne Convention (Article 9.2), the WCT (Article 10) and the WPPT (Article 16)<sup>211</sup>.

On exceptions and limitations in the digital environment, the FTA reproduces the respective Agreed Statements to Articles 10 and 16 of the WCT and WPPT, but builds on them by explicitly allowing for temporary copies which are transient or incidental and an integral and essential part of a technological process and

“...whose sole purpose is to enable (a) a lawful transmission in a network between third parties by an intermediary; or (b) a lawful use of a work or other subject matter to be made; and which have no independent economic significance.”<sup>212</sup>

As mentioned above, the quoted footnote takes its language from the EU Copyright Directive. The important effect of this carved out exception from the exclusive rights is that, subject to these requirements, temporary copies do not have to go through the sometimes very strict process of the “three-step test”. This exception has been pointed out by the US industry as setting “a dangerous exception to the all-important reproduction right, an exception that could have serious consequences for right holders doing business on the Internet”<sup>213</sup>.

There are no restrictions in the FTA to use the flexibilities of the “Special Provisions Regarding Developing Countries” in the Annex of the Berne Convention, as was the case in the treaty with Vietnam which provides that:

“Neither Party may grant translation or reproduction licenses permitted under the Appendix to the Berne Convention where legitimate needs in that Party’s territory for copies or translations of the work could be met by the right holder’s voluntary actions but for obstacles created by the Party’s measures.”

### 4. Acquisition and management of software for government use

The FTA confirms that government use of computer software should take place as duly authorized. To that end, the Parties shall issue appropriate legal instruments to actively regulate the acquisition and management of software for such government use. Such measures may take the form of procedures for the preparation and maintenance of inventories of software present on agencies’ computers and inventories of software licenses.

This obligation has elicited concerns about its exact meaning and consequences. It could be understood as being an encouragement to the exclusive use of proprietary software as opposed to open source software<sup>214</sup>. Others believe that fears are exaggerated because the use of open source software also operates on the basis of “due authorization”.

### 5. Circumvention of effective technological measures

The FTA provides for very strict rules against the circumvention of technological protection measures (TPMs) used by authors, performers and producers of phonograms or any

<sup>207</sup>Article 17.4.2 (b), FTA

<sup>208</sup>See definition of “Work made for hire” under U.S.C. Title 17 § 101 and “Ownership of copyrights” under U.S.C. Title 17 § 201

<sup>209</sup>Note that the California Civil Code, Section 986 also provides for *droit de suite* for artists living in

that state

<sup>210</sup>Article 17.4.6(b), US-Australian FTA

<sup>211</sup>See discussion in UNCTAD-ICTSD, *Resource Book*

<sup>212</sup>Footnote 17, FTA

<sup>213</sup>IFAC-3-Chile, 2003

<sup>214</sup>US industry considers this type of obligation “an all-important requirement.” “The U.S. has already issued such an Executive Order and it is critical for all governments, CAFTA members included, to ensure that their software use is fully licensed and that effective software management systems are established.” IFAC-3-CAFTA, 2004

protected material to protect their works, performances and phonograms, protected by copyright and related rights.

The provisions on TPMs go beyond the WCT<sup>215</sup> and the WPPT<sup>216</sup>, which only state that Parties "shall provide adequate legal protection and legal remedies" against the circumvention of TPMs, leaving it to each Party to decide the way in which it will implement the provisions and whether it will apply civil and/or criminal sanctions to infringers.

The FTA provides for very detailed rules aimed at providing adequate legal protection and effective legal remedies to fight against circumvention of effective technological measures.<sup>217</sup> In a key provision, Parties are committed to

Article 17.7.5: "provide that any person who knowingly circumvents without authorization of the right holder or law consistent with this Agreement any effective technological measure that controls access to a protected work, performance, or phonogram shall be civilly liable and, in appropriate circumstances, shall be criminally liable, or said conduct shall be considered an aggravating circumstance of another offence. No Party is required to impose civil or criminal liability for a person who circumvents any effective technological measure that protects any of the exclusive rights of copyright or related rights in a protected work, but does not control access to such work"<sup>218</sup>.

The terminology and the TPMs provisions draw from the controversial US Digital Millennium Copyright Act (DMCA)<sup>219</sup>, which was

"nominally intended to bring US law into compliance with the 1996 WIPO Treaties on copyright and the Internet, but in fact [it] went well beyond what those treaties required."<sup>220</sup>

The strong provisions make it a civil and criminal offence to tamper with embedded antipiracy measures that control access to works and phonograms. It also provides for civil liability, and when done wilfully and for prohibited commercial purposes, criminal liability for the manufacture, import, distribution, sale or rental of devices, products or

components that serves the purpose of circumventing TPMs that control access and the exclusive rights in a work or phonogram<sup>221</sup>.

Critics of the TPMs provisions of the DMCA argue that they impede lawful uses of works, such as making a copy of a music CD to listen to it in a notebook, making a backup copy of a computer program as allowed for by Chilean<sup>222</sup> and US law<sup>223</sup>, or copying small parts of a movie in a DVD for purposes of teaching or criticism. TPMs have also been used to bar the manufacture of competing products, to suppress speech, to limit the first sale doctrine and to fragment markets through the use of regional zone codes in DVDs. Moreover, the use of TPMs restricts access to works that have already fallen in the public domain<sup>224</sup>. The import of

### Box 9: The DMCA and developing countries

"These controversial provisions of the DMCA have been heavily criticized as overprotective and lacking in any limitations to protect legitimate uses of content protected by technological means. For example, the DMCA does not admit strong fair use exceptions or other limitations that arguably preserve the important balance between public and private interest in digital content. Important public welfare issues implicated by the DMCA model include: the ability of competitors to create software products for purposes of interoperability, encryption research and security testing, and control over complementary markets. On the other hand, the EU model of the WCT contains room for flexibility for member states to consider enacting limitations and exceptions that are consistent with those provided by national law.

Notwithstanding the significant criticism of the DMCA, a series of bilateral trade agreements negotiated by the USA have included DMCA like provisions, and thus made these inordinately high standards a de facto model for global implementation of the WCT. The combined effect of private law mechanisms such as torts and contract law, and public law regulation through copyright and other specialized regimes like the DMCA, will lead inevitably to increased difficulty in access to content. In a situation where access to hardware is already an important hindrance to developing countries, adding another layer of impediments, and inevitably raising costs, is problematic for the interests of developing countries in utilizing information technology."

Source: Ruth Okedji, 2004

<sup>215</sup>The WCT addresses the issue of TPMs in Article 11 ("Obligations concerning Technological Measures") by providing that: "Contracting Parties shall provide adequate legal protection and effective legal remedies against the circumvention of effective technological measures that are used by authors in connection with the exercise of their rights under this Treaty or the Berne Convention and that restrict acts, in respect of their works, which are not authorized by the authors concerned or permitted by law."

<sup>216</sup>Article 18, WPPT

<sup>217</sup>"Effective technological measure means any technology, device, or component that, in the normal course of its operation, controls access to a work, performance, phonogram, or any other protected material, or that protects any copyright or any rights related to copyright, and cannot, in the usual case, be circumvented accidentally." Article 17.7.5 (f), FTA

<sup>218</sup>Article 17.7.5, FTA provides further: "(b) each Party shall also provide administrative or civil measures, and, where the conduct is wilful and for prohibited commercial purposes, criminal measures with regard to the manufacture, import, distribution, sale, or rental of devices, products, or components or the provision of services which: (i) are promoted, advertised, or marketed for the purpose of circumvention of any effective technological measure, or (ii) do not have a commercially significant purpose or use other than to circumvent any effective technological measure, or (iii) are primarily designed, produced, adapted, or performed for the purpose of enabling or facilitating the circumvention of any effective technological measures. Each Party shall ensure that due account is given, inter alia, to the scientific or educational purpose of the conduct of the defendant in applying criminal measures under any provisions implementing this subparagraph. A Party

may exempt from criminal liability, and if carried out in good faith without knowledge that the conduct is prohibited, from civil liability, acts prohibited under this subparagraph that are carried out in connection with a non-profit library, archive or educational institution."

<sup>219</sup>U.S.C. Title 17 § 1201

<sup>220</sup>Lemley et al, p 891

<sup>221</sup>"The DMCA was a bit of law intended to back up the protection of [this] code designed to protect copyrighted material. It was, we could say, *legal code* intended to buttress *software code* which itself was intended to support the *legal code of copyright*". Lessig, 2004

<sup>222</sup>Law 17.336, Article 47

<sup>223</sup>U.S.C. Title 17 § 117

<sup>224</sup>Electronic Frontier Foundation

these provisions in bilateral agreements has also been criticized for adding new hurdles to developing countries access to information technology (Box 9).

Very limited exemptions to the FTA detailed provisions – aimed at providing adequate legal protection and effective legal remedies to fight against circumvention of effective technological measures – are permitted for cases such as:

- reverse engineering to achieve interoperability between computer programs;
- analyzing and identifying flaws of encryption technologies;
- preventing access of minors to inappropriate online content;
- correcting security of a computer;
- disabling a capability to collect and disseminate personal information;
- lawful activities of government employees; and,
- access to works by non-profit libraries, archives or educational institutions for the purpose of making acquisition decisions.

However, the FTA allows for the establishment of exemptions and limitations to address specific situations and activities:

Article 17.7.5(d)(i): “...when an actual or likely adverse effect on non infringing uses with respect to a particular class of works or exceptions or limitation to copyright or related rights with respect to a class of users is demonstrated or recognized through a legislative or administrative proceeding established by law, provided that any limitation or exception adopted in reliance upon this subparagraph ... shall have effect for a period of not more than three years from the date of conclusion of such proceeding.”

The US industry, in general, expressed some degree of dissatisfaction about this type of limitation in the FTA. Comparing it with the outcome of the CAFTA negotiations, it has stated:

“The requirement that the CAFTA countries implement protection for technological protection measures (TPMs) used by right holders to protect against unauthorized access and exploitation of their works to do so in virtually the same manner as did the U.S. in the DMCA in 1998. In addition, the text provides for a list of narrowly crafted exceptions – in close consistency with how the U.S. Congress approved those exceptions in U.S. law (Article 15.5.7). We applaud the negotiators for curing some of the disturbing omissions from the Chile FTA text”<sup>225</sup>.

While the DMCA makes the US Copyright Office the agency in charge of conducting the proceedings, the FTA states that the limitations or exceptions should be recognized through a legislative act, where there may be more possibilities of crafting new exemptions, as legislatures are usually more sensitive to demands from civil society. Despite these exceptions, many other reasons for circumventing are left out<sup>226</sup>.

Finally and probably because of the complexity of dealing with TPMs, these provisions have five years for its full implementation, the longest term allowed by the FTA (Box 6).

### 6. Rights management information

The FTA protects Rights Management Information (RMI)<sup>227</sup> in terms very similar to those in the WCT<sup>228</sup> and the WPPT<sup>229</sup>. The difference is that it provides for civil sanctions and for criminal sanctions when the prohibited acts are done wilfully and for commercial advantage<sup>230</sup>. These protective measures have also received strong criticisms in the USA particularly by civil society and academia<sup>231</sup>.

#### 3.3.4 Protection of satellite signals

The FTA<sup>232</sup> obliges the Parties to ratify before 1st of January 2009, the Convention Relating to the Distribution of Programme-Carrying Signals Transmitted by Satellite, agreed in Brussels on 21 May 1974<sup>233</sup> (the Brussels Convention)<sup>234</sup>, which entered into force on 25 August 1979<sup>235</sup>.

The Brussels Convention provides that each contracting

<sup>225</sup>IFAC-3-CAFTA, 2004, p 10

<sup>226</sup>Samuelson, 1999

<sup>227</sup>Article 17.7.6 (b), FTA, Rights management information means:

“(i) information which identifies a work, performance, or phonogram; the author of the work, the performer of the performance, or the producer of the phonogram; or the owner of any right in the work, performance, or phonogram;

(ii) information about the terms and conditions of the use of the work, performance, or phonogram; and  
(iii) any numbers or codes that represent such information,

when any of these items is attached to a copy of the work, performance, or phonogram or appears in conjunction with the communication or making available of a work, performance, or phonogram to the public. Nothing in paragraph 6(a) requires the owner of any right in the work, performance, or phonogram to attach rights management information to copies of the owner's work, performance, or phonogram or to cause rights management information to appear in connection with a communication of the work, performance, or phonogram to the public.”

<sup>228</sup>Article 12, WCT

<sup>229</sup>Article 19, WPPT

<sup>230</sup>Article 17.7.6 (a), FTA: “In order to provide adequate and effective legal remedies to protect rights management information: (a) each Party shall provide that any person who without authority, and knowing, or, with respect to civil remedies, having reasonable grounds to know, that it will induce, enable, facilitate, or conceal an infringement of any copyright or related right, (i) knowingly removes or alters any rights management information; (ii) distributes or imports for distribution rights management information knowing that the rights management information has been altered without authority; or (iii) distributes, imports for distribution, broadcasts, communicates, or makes available to the public copies of works or phonograms, knowing that rights management information has been removed or altered without authority, shall be liable, upon the suit of any injured person, and subject to the remedies in Article 17.11(5). Each Party shall provide for application of criminal procedures and remedies at least in cases where acts prohibited in the subparagraph are done wilfully and for purposes of commercial advantage. A Party may exempt from criminal liability prohibited acts done in

connection with a nonprofit library, archive, educational institution, or broadcasting entity established without a profit-making purpose.”

<sup>231</sup>Okedji, 2004

<sup>232</sup>Article 17.1.3(c), FTA

<sup>233</sup>The Convention was adopted by the International Conference of States on the Distribution of Programme-Carrying Signals, transmitted by Satellite, convened jointly by the United Nations Educational, Scientific and Cultural Organization and WIPO. The Conference held discussions on the basis of the Draft Convention drawn up by the Committee of Governmental Experts on Problems in the Field of Copyright and of the Protection of Performers, Producers of Phonograms and Broadcasting Organizations Raised by Transmission via Space Satellites held at Nairobi (Kenya) from 2 to 11 July 1973

<sup>234</sup>In no other bilateral trade treaty recently negotiated by Chile (with Mexico, EFTA, EU or Korea), there exists a similar obligation to become member of the Brussels Convention

<sup>235</sup>As of March 2004, 26 States were Members of the Convention. The USA acceded on 7 March 1985

Party shall take adequate measures to prevent the unauthorized distribution in or from its territory of any programme-carrying signal transmitted by satellite. The said Convention (Article 8) permits specific reservations to members, under special circumstances, which are not excluded from the FTA.

In addition to the obligation to become a party to the Brussels Convention and the obligations deriving from that treaty, the FTA provides for further complementary related enforcement obligations.

First, acts such as the manufacture, assembly, modification, import, export, sale, lease or distribution of a tangible or intangible device or system, may be considered either a civil or criminal offence if the person concerned knows that the principal function of the device or the system is solely to assist in decoding an encrypted programme-carrying satellite signal without being duly authorized. The knowledge of the principal function of the device or system may be demonstrated through reasonable evidence, taking into account the facts and circumstances surrounding the alleged illegal act. Also the wilful reception or further distribution of an encrypted-programme-carrying satellite signal knowing that it has been decoded without the authorization of the lawful distributor shall be considered either a civil or a criminal offence.

Each Party shall provide that any person injured by any of the activities described above, including any person that holds an interest in the encrypted programming signal or in the content of that signal, shall be permitted to initiate a civil action because of that infringement.

It was during the negotiations of the NAFTA that a similar provision was first introduced<sup>236</sup> in trade agreements. While in the FTA<sup>237</sup>, as we have seen, the offences may be of a civil or a criminal nature<sup>238</sup>, in NAFTA the offences are of a criminal and civil nature depending on the conduct.

### 3.3.5 Domain names in the Internet

In order to be identified, each computer connected to the Internet has a numerical address called an "Internet Protocol". Because combinations of numbers are easy to forget, Internet Protocol addresses are converted into letters and numbers in order for people to remember them. This (alphanumeric) result is called a "domain name", which usually will be composed of two parts. The first one being the main name, usually the name of a firm, person, country, or city, followed by a dot, and a suffix, such as com, org, edu,

or biz. The suffix in the domain name is called a Top Level Domain (TLD). Every Internet address has one TLD that corresponds to the last part of the domain name<sup>239</sup> (Box 10).

#### Box 10: Top Level Domain (TLD)

There are two kinds of TLDs: generic TLD (gTLDs) and country code TLD (ccTLDs). Generic TLDs, (e.g., .com, .org, .net, .edu, .biz, .name, .pro, .gov or .edu) can be used, with some exceptions, by anyone in the world and are administrated globally. Country code TLDs, on the other hand, are used to identify a particular country or geographic area, and are managed locally in the respective country. They are two letter country names based on the ISO 3166-1 country codes. The USA ccTLD is ".us", while Chile's is ".cl". The management of ccTLDs rests in local Network Information Centers (NICs) by delegation of the Internet Assigned Numbers Authority (IANA), which is part of the Internet Corporation for Assigned Names and Numbers (ICANN). The latter is a private corporation in charge of the technical management functions of the Internet. According to the 1998 White Paper, ICANN is the organization responsible for overall coordination of the Domain Name System (DNS), together with other technical functions. As administrators of ccTLDs, NICs must, together with registering domain names under the respective ccTLD, provide for procedures for the settlement of disputes.

It is very common that two or more persons are interested in registering the same domain name. In the real world, two different persons are allowed to use and register the same name or trademark for identifying completely different products or services. In the Internet, no two domain names are the same, they are unique. While two persons may be using and may have registered "Apple" as a trademark, one for designating a computer company and the other to designate a record label, in the world of the Internet there may be only one domain name called www.apple.com. But people do not always fight over the same domain name for legitimate purposes. Some people buy several domain names, which contain well-known trademarks, to sell them to people who own the trademarks in the real world, probably at much higher prices than what it normally costs. This problem has been called cybersquating or cybersquatting.

Source: ICANN

The FTA provisions on domain names in the Internet deal with settlement of disputes and transparency in the management of country code top level domains (ccTLD). On the settlement of disputes it provides:

Article 17.3.1: "Each Party shall require that the management of its country-code top level domain (ccTLD) provide an appropriate procedure for the settlement of disputes, based on the principles established in the *Uniform Domain-Name Dispute-Resolution Policy* (UDRP), in order to address the problem of trademark cyber-piracy."

<sup>236</sup>Article 1707, NAFTA

<sup>237</sup>Article 17.8, FTA: Protection of Encrypted Program-Carrying Satellite Signals "1. Each Party shall make it: (a) a civil or criminal offense to manufacture, assemble, modify, import, export, sell, lease, or otherwise distribute a tangible or intangible device or system, knowing that the device or system's principal function is solely to assist in decoding an encrypted program-carrying satellite signal without the authorization of the

lawful distributor of such signal; and (b) a civil or criminal offense willfully to receive or further distribute an encrypted program-carrying satellite signal knowing that it has been decoded without the authorization of the lawful distributor of the signal. 2. Each Party shall provide that any person injured by any activity described in subparagraphs 1(a) or 1(b), including any person that holds an interest in the encrypted programming signal or the content of that signal, shall be permitted to initiate a civil action under any measure

implementing such subparagraphs."

<sup>238</sup>CAFTA (Article 15.8), US-Australia FTA (Article 17.7) and US-Singapore FTA (Article 16.6) contain a similar approach to that provided under the NAFTA. The Chile-Mexico FTA provides only for civil sanctions (Article 15-12).

<sup>239</sup>For example, www.chileusfta.org could be the domain name of an organization devoted to the study of the FTA between Chile and the US, where ".org," for organization, would be the TLD.

The FTA does not specify the precise rules on which the “appropriate procedures for the settlement of disputes” should be based. However, it could be assumed that the Parties should provide for procedures based on the “principles” of the UDRP (see Box 11) but not necessarily the “Rules for UDRP”, which are a series of very detailed procedural rules, stating when, where and how a complaint should be made, and when, where and how the complaint should be answered. The UDRP went into effect on 1 December 1999.

### Box 11: The UDRP

The UDRP provides that certain types of disputes must be submitted to a mandatory administrative proceeding which will be activated if a complainant asserts that (i) the “domain name is identical or confusingly similar to a trademark or service mark in which the complainant has rights; (ii) that the registrant has “no rights or legitimate interests in respect of the domain name”; and that (iii) the “domain name has been registered and is being used in bad faith”.

After establishing the above three-pronged test the UDRP describes, non-exhaustively, some presumptions of bad faith, such as acquiring the domain name primarily for the purpose of selling, renting, or transferring the domain to the owner or a competitor of a trademark; registering the domain to prevent a trademark owner from reflecting the mark in that domain; registering the trademark to disrupt the business of a competitor; or creating likelihood of confusion with the complainant’s mark by attracting customers to your website.

Finally, remedies in the UDRP are limited to cancellation, transfer or changes in the domain in question.

Source: <https://www.wsmdomains.com/URDP.html>

The FTA<sup>240</sup> leaves space for each Party to determine whether disputes surrounding trademark cyberpiracy in its gTLD will be resolved by applying the UDRP itself, or a Local Dispute Resolution Policy (LDRP). This provision is substantially different from the one proposed by the USA in the FTAA negotiations<sup>241</sup> and presumably submitted and proposed to Chile at the beginning of the negotiations<sup>242</sup>, in the sense that

participation in ICANN’s UDRP would have been mandatory for each Party’s Network Information Centers (NIC).

In this area, the FTA does not introduce any major innovation. Both countries, long before the launching of the negotiations<sup>243</sup>, had already implemented policies in line with the standards set forth in the FTA.

Neither Chile’s Procedure of Mediation and Arbitration, nor the US DRP prevent parties of a domain name dispute from filing a suit in a jurisdictional court. Moreover, Parties are free to regulate the problem of cyberpiracy in their domestic laws by establishing special procedures to deal with this issue. The USA did this by enacting the Anti-cybersquatting Consumer Protection Act (ACPA), which “is a US federal law enacted in 1999 to protect the owners of trademarks from abuse by domain name cybersquatters”<sup>244</sup>.

Because the text of the FTA limits the application of the procedure based on the principles of the UDRP to the problem of trademark cyber-piracy<sup>245</sup>, many other types of domain disputes are left out of this system. For instance, the FTA<sup>246</sup> would exclude disputes between legitimate trademark owners, disputes regarding personal names (other than those protected as trademarks), defamation, dilution of trademarks, and depending on whether a Party protects GIs through trademarks, they could choose to apply or leave out GIs from the provision in question.

Of course both countries are free to apply whichever system of dispute settlement they choose to these other types of questions, be it the UDRP or a LDRP as is currently the case. In fact, Chile’s domestic law<sup>247</sup> allows the procedure to be used against an abusive registration, when the registered domain name is identical or confusingly similar to a name by which the claimant is known.

The UDRP and other LDRP have been criticized as overreaching. Although their main purpose is to combat trademark cyberpiracy, the procedures are often used to suppress free speech or competition.<sup>248</sup>

<sup>240</sup>Article 17.3.1, FTA

<sup>241</sup>Article 13, draft Chapter on IP, states that: “Each Party shall have its domestic Network Information Centers (NICs) participate in the ICANN Uniform Dispute Resolution Procedure (UDRP) to address the problem of cyber-piracy of trademarks”

See the Chapter at [http://www.ftaa-alca.org/FTAADraft03/ChapterXX\\_e.asp](http://www.ftaa-alca.org/FTAADraft03/ChapterXX_e.asp)

<sup>242</sup>See US proposal on Domain Names in the Internet published in Chile’s NIC web page at <http://www.nic.cl/Board/2001-2/alca.html>. Note that the original US proposal provided for an extra obligation, which is not included in the final text, but made its way into the US - Singapore FTA: “Each Party shall participate in the Government Advisory Committee (GAC) of the Internet Corporation for Assigned Names and Numbers (ICANN) to promote appropriate country code Top Level Domain (ccTLD) administration and delegation practices and appropriate contractual relationships for the administration of ccTLDs in the Hemisphere”. The draft of the FTAA Chapter on IPRs has a similar provision

<sup>243</sup>The DRP used by the administrator of the “.us” ccTLD is the usTLD Dispute Resolution Policy or usDRP (Approved by the US Dept. of Commerce on February 21, 2002). In every aspect it is very similar to the UDRP. In Chile the DRP is called Procedure for Mediation and Arbitration, a LDRP implemented in 1997 and considered a pioneer in the world. It is also very similar to the UDRP with some minor differences, such as providing for an opposition period after the filing of a domain; parties may also resort to mediation before going to arbitration; and arbiters may be subject to a disciplinary appeal to a jurisdictional court. For a more detailed description of the differences between the UDRP and the Procedure of Mediation and arbitration, go to <http://www.nic.cl/Board/2001-2/alca.html>

<sup>244</sup>See Chilling Effects at <http://www.chillingeffects.org/acpa/>

<sup>245</sup>To date, there is no treaty definition of cyberpiracy, although there is consensus that it covers at least bad faith registration of a domain name identical or confusingly similar to a trademark or

service mark. According to the Final Report of the WIPO Internet Domain Name Process (First Process) para. 170, cyber-piracy would be a concept associated to copyright infringement in the web. See <http://wipo2.wipo.int/process1/report/finalreport.html>

<sup>246</sup>Article 17.3.1, FTA

<sup>247</sup>Regulation for the Functioning of the Register for CL Domain Names.

Article 22) “It will be a cause for revocation of a domain name that its registration was abusive, or that it was made in bad faith. The registration will be considered abusive when the domain name is identical or confusingly similar to a trademark or service or mark in which the claimant has rights, or to a name by which the claimant is known.” (Translation of article by the author)

<sup>248</sup>The practice of trademark holder engaging in bad faith litigation, including DRPs, to deprive legitimate owners of their domain names, is called “reverse domain name hijacking.”

The second guiding principle in this area relates to transparency. The relevant provision states:

Article 17.3.2: “Each Party shall, in addition, require that the management of its respective ccTLD provide online public access to a reliable and accurate database of contact information for domain-name registrants, in accordance with each Party’s law regarding protection of personal data.”

In both the USA and Chile, the NICs comply with this obligation of having a “whois”<sup>249</sup> database. Regarding protection of personal data, this is an obligation that each Party should comply with, according to its own domestic law. While CAFTA has the same provision on transparency, the US free trade agreements with Australia, Singapore and Morocco refer only to having a “whois” database, but no reference is made to the protection of personal data.

### 3.3.6 Identification signs: trademarks and GIs

#### 1. Main features of the trademarks provisions

Because of both Parties particular interest in this category of protection, the provisions on trademarks were thoroughly discussed during the FTA negotiations. Chile, with only 15 million people, is worldwide a country with more registered trademarks than a number of developed countries. Great emphasis was given in the discussions to certification and collective marks and to the different trademark systems in place in Chile and the USA. Difficulties did arise with GIs, because in the USA GIs are generally protected under trademark law. In fact, according to the FTA:

Footnote 3 to Article 17.2.1: “A geographical indication is capable of constituting a trademark to the extent that the geographical indication consists of any sign, or combination of signs, capable of identifying a good or a service as originating in the territory of a Party, or a region or locality in that territory, were a given quality, reputation, or other characteristic of the good or service is essentially attributable to its geographical origin.”

According to the FTA<sup>250</sup>, trademarks shall include collective, certification and sound marks<sup>251</sup> and may include GIs and scent marks. This means that there are at least three categories of marks that should be protected, namely, collective,

certification and sound marks. But, there are two further categories of signs for which protection as a trademark is not mandatory – i.e., GIs and scent marks. This is a TRIPS-plus and even NAFTA-plus standard because the protection of certification marks is not mandatory under those agreements. In the recent US agreement with Australia, protection for collective and certification marks is also mandatory and GIs are eligible for protection as a mark. Sound and scent marks are not included in this latter agreement. However, the US agreements with Jordan, Singapore and CAFTA have a similar provision to the FTA.

In the FTA, certification marks do not need to be recognized as a separate category of trademark, but the sign as such should be protected as an ordinary trademark.

The TRIPS Agreement provides that the use of a trademark in the course of trade shall not be unjustifiably encumbered by special requirements<sup>252</sup>. Pursuant to this, the FTA further provides that each Party shall ensure that any measure mandating the use of a term customary in common language, as the “common name” for a good, does not impair the use or effectiveness of trademarks used in relation to such good<sup>253</sup>. This provision seems to build upon TRIPS (Article 20), by permitting that the use of a trademark shall not be unjustifiably encumbered. It states that where the use of a generic name is required, its use shall not impair the effectiveness of the trademark. This could be the reason why in the US agreement with Singapore a footnote was added to clarify that the relevant provision was not intended to affect the use of common names of pharmaceutical products in prescribing medicines<sup>254</sup>.

Consistent with TRIPS<sup>255</sup>, the FTA<sup>256</sup> provides that the trademark owner shall have the exclusive right to prevent others, without his consent, from using in the course of trade identical or similar signs<sup>257</sup>. Nevertheless, there are two important differences when compared with the TRIPS Agreement.

First, trademark owners shall have the right to prevent third parties without their consent, from using in the course of trade identical or similar signs, “... including subsequent geographical indications...”. This addition makes sense, as GIs are capable of constituting a trademark, according to the

<sup>249</sup>In the case of Chile, see <http://www.nic.cl/cgi-bin/dom-CL?q=whois>

<sup>250</sup>Article 17.2.1, FTA

<sup>251</sup>Note that Chile agreed to protect sound marks because in the country there were a number of melodies associated to local products, services or enterprises. Well known is the case of ENTEL’s chime, a telephone services provider, which sounds when that enterprise is chosen as a carrier for calls outside of Chile.

<sup>252</sup>Article 20, TRIPS

<sup>253</sup>Article 17.2.3, FTA

<sup>254</sup>Article 16.2.6, US-Singapore FTA, footnote 16-7

<sup>255</sup>Article 16.1, TRIPS: “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.”

<sup>256</sup>Article 17.2.4, FTA

<sup>257</sup>Note that TRIPS and NAFTA have equivalent drafting on this matter. Nevertheless, the wording in the FTA is similar to the one contained in the US-Australian FTA (Article 17.2.4), CAFTA (Article 15.2.3), US-Jordan FTA (Article 4.7) and the US-Singapore FTA (Article 16.2.2)

FTA. Secondly, the right of the title holder is not only extended to products or services which are identical or similar to those for which the trademark is registered, but also to goods or services "... that are related to those goods or services in respect of which the trademark is registered, where such use would result in a likelihood of confusion." Likelihood of confusion is a matter to be determined by the domestic trademark law<sup>258</sup>. Examples of related-goods could be a trademark for medical equipment used also for medical uniforms; or a *sushi* related trademark later used for chopsticks.

According to the FTA<sup>259</sup>, goods or services may not be considered as being similar or being dissimilar from each other simply on the grounds that, in any registration or publication, they appear in the same classes or in different classes of any classification system, including the Nice classification<sup>260</sup>. The latter provision permits domestic administrative and judicial authorities to apply a broader criterion when establishing similarity or identity of signs for products or services. Usually, there would be a strong presumption in favour of concluding that goods that are in a similar class are at least similar, and that goods that are in different classes probably are dissimilar. Chile is not part of the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of Registration of Marks (Nice Agreement)<sup>261</sup>, but in its Association Agreement with the EU, Chile committed to accede to the Nice Agreement by the 1 January 2007.

The FTA allows the Parties to adopt limited exceptions to the rights conferred by a trademark, provided that such exceptions take account of legitimate interests of the owner of the trademark and of third parties<sup>262</sup>. These limitations should refer to the different categories of trademarks recognized in the Agreement, namely collective marks, certification marks and sound marks, as well as GIs (when protected as a trademark) and scent marks, in case the Parties wish to protect them. The inclusion of certification marks and sound marks could be one of the reasons why the chapter reproduces, literally, the relevant TRIPS provision on exceptions to the rights conferred to the trademark owner, without any modification or addition<sup>263</sup>.

Parties shall afford an opportunity for interested parties to oppose the application of a trademark<sup>264</sup>. Again compared to the TRIPS Agreement, which leaves it to the Parties to decide whether they will allow for oppositions, the FTA goes a step further and makes this an obligation on the Parties<sup>265</sup>.

No parallel provision to that in the TRIPS Agreement on the minimum duration of a trademark and its renewal<sup>266</sup> is found in the FTA. This is not the case in the agreements of the USA with Australia, Morocco and CAFTA, which provide for a minimum of 10 years instead of seven years as provided for in TRIPS.

Reportedly, an additional issue discussed during the negotiations was the prohibition of the requirement to record trademark licences to establish the validity of such a license. While both TRIPS and the FTA say nothing about recording of trademark licenses, a provision of this nature is found in the trade agreements of the USA with Australia, CAFTA<sup>267</sup>, Jordan, Morocco and Singapore.

## 2. *Special protection to well-know trademarks*

The FTA<sup>268</sup> gives particular attention to the standards of protection concerning well-know marks. As in TRIPS<sup>269</sup>, the level of protection is the same as that provided under the Paris Convention for the Protection of Industrial Property (1967)<sup>270</sup>, but covering both products and services. In the FTA non-registered well-known marks also benefit from such protection against dilution. A similar provision is found in the US agreements with CAFTA, Jordan, Singapore, Morocco and Australia.

The FTA<sup>271</sup> also goes beyond the TRIPS Agreement in various respects when providing for additional measures of protection of well-known trademarks. It states that according to its domestic legislation, Parties shall provide for appropriate measures to prohibit or cancel the registration of a trademark, identical or similar to a well-known trademark, if the use of that trademark by the registrant applicant:

- is likely to cause confusion, or
- to cause mistakes, or
- to deceive, or
- risk associating the mark with the owner of the well-know trademark, or

<sup>258</sup>Footnote 4, FTA

<sup>259</sup>Article 17.2.12(b), FTA

<sup>260</sup>A similar provision is contained under CAFTA (Article 15.2.8(b))

<sup>261</sup>The Nice Agreement was concluded on June 15, 1957 under the auspices of WIPO. It was revised at Stockholm on July 4, 1967 and at Geneva on May 13, 1977 and amended on September 28, 1979. In January 2004, 72 States were party to the Agreement but other countries and at least three organizations and the International Bureau of WIPO actually use the Nice Classification. In order to keep the Nice

Classification up to date, it is continuously revised under a Committee of Experts set up under the Agreement and a new edition is published every five years. The current (eighth) edition of the said International Classification has been in force since 1 January 2002

<sup>262</sup>Article 17.2.5, FTA

<sup>263</sup>Article 17, TRIPS, appears replicated in NAFTA (Article 1709.12), US-Australia FTA (Article 17.2.5), CAFTA (Article 15.2.4) and USA-Singapore FTA (Article 16.2.3)

<sup>264</sup>Article 17.2.5, FTA

<sup>265</sup>Article 15. 5, TRIPS, provides that "... Members

may afford an opportunity for the registration of a trademark to be opposed."

<sup>266</sup>Article 18, TRIPS

<sup>267</sup>Article 15.2.10, CAFTA: "No party shall require recordal of trademark licenses to establish the validity of the license, to assert any rights in a trademark, or for other purposes."

<sup>268</sup>Article 17.2.6, FTA

<sup>269</sup>Article 16.3, TRIPS

<sup>270</sup>Article 6bis, Paris Convention

<sup>271</sup>Article 17.2.7, FTA



- constitutes unfair exploitation of the reputation of the trademark.

These appropriate measures shall be adopted for a trademark that is identical or similar to a well-known trademark, provided that at least one of the above-mentioned situations exists. Of course these measures to prohibit or cancel registration should not apply when the registration applicant is the owner of the well-known mark.

On the nature of the measures to be taken, whether this additional protection should apply *ex-officio* or at the request of an interested party, as well as the precise meaning of the different situations described above, are all issues to be resolved under the domestic legislation of the Parties.

In determining whether a trademark is well known the TRIPS Agreement<sup>272</sup> obliges Members

“... to take account of the knowledge of the trademark in the relevant sector of the public, including knowledge in the Member concerned which has been obtained as a result of the promotion of the trademark.”

The FTA goes further by clarifying that “... a Party shall not require that the reputation of the trademark extend beyond the sector of the public that normally deals with the relevant goods or services”<sup>273</sup>. While the TRIPS provision permits WTO Members to take into account the reputation of the trademark beyond the relevant sector of the public, the FTA clearly does not.

Finally, a major feature in the protection of well-known marks is the recognition of the importance<sup>274</sup> of the Joint Recommendation on the Protection of Well-Known Marks<sup>275</sup>. The Parties commit themselves to be guided by the principles contained in this Recommendation. No parallel provision is found in the US agreements with Jordan, CAFTA and Australia. In the case of the US agreement with Singapore there is a more specific obligation to give effect to articles 1 to 6 of the said Joint Recommendation<sup>276</sup>, which are the substantive provisions of the Recommendation. Besides the six articles, the Recommendation provided for some explanatory notes. This type of incorporation in binding agreements of joint recommendations adopted by governments in international organizations has been highlighted as an important development in international law by acknowledging “soft law” instruments in legally binding instruments. A parallel to this development could be the relevance and impact of the Doha Declaration on Public Health referred to in the Preamble to Chapter 17 of the FTA.

### 3. Common provisions for the registration of trademarks

The FTA contains a number of provisions about the trademark registration system to:

- establish basic formal requirements affecting decisions and notifications;
- modernize the registration system by using electronic means; and,
- encourage the use of the International Classification contained in the Nice Agreement<sup>277</sup>.

No similar provisions are found under the NAFTA or in the US agreements with Jordan and Singapore, but they do appear in the agreements with Australia<sup>278</sup> and CAFTA<sup>279</sup>.

The substance of the obligations regarding the registration of trademarks contained in the FTA is already included in the enforcement provisions of the TRIPS Agreement; however, the latter provisions are less burdensome and more flexibly drafted than those in the FTA.

On the establishment of formal requirements affecting decisions and notifications, the Parties shall provide a system for its registration and make available transparent procedures to provide guaranties of due process. These requirements are summarized in Box 12.

Another important obligation of the Parties, aimed at improving the registration system for trademarks, is to provide, to the maximum degree practical, a system for electronic application, processing, registration and maintenance of trademarks. Both the USA and Chile already provide for on-line registration of trademarks.

A further obligation on the registration of trademarks relates to the encouragement “to classify goods and services” according to the Nice Agreement. In addition, each registration or publication concerning a trademark application or registration and which indicates the relevant goods or services shall indicate the goods and services by their names.

In those cases where the full implementation of the obligations requires a Party to amend its domestic legislation or additional financial resources, those amendments and additional resources should be in force or available as soon as practicable, as in the case of the trademarks provisions of the FTA and in no event later than two years from the date of entry into force of the bilateral agreement<sup>280</sup>.

### 4. Geographical indications

Although Chile and the USA have advocated similar positions and submitted joint proposals<sup>281</sup> within the Council for

<sup>272</sup>See second sentence of Article 16.2, TRIPS

<sup>273</sup>Article 17.1.8, FTA

<sup>274</sup>Article 17.1.9, FTA

<sup>275</sup>See WIPO 2000, Joint Recommendation. This was seen as the first implementation of WIPO's policy to adapt to the pace of change in the field of industrial property by considering new options for accelerating the development of international

harmonized common principles.

<sup>276</sup>Article 16.1.2(b), US-Singapore FTA

<sup>277</sup>As mentioned above, although Chile is not a Member to the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks, for many years it has classified trademarks according to this treaty. See the Chilean Regulations under

the Industrial Property Law, notified as a WTO document IP/N/1/CHL/II/5

<sup>278</sup>Article 17.2.7, US-Australia FTA

<sup>279</sup>Article 15.2.6, CAFTA

<sup>280</sup>Article 17.12.2(a), FTA. See also discussion under provisional arrangements, above

<sup>281</sup>WTO documents IP/C/W/ 395, 386, 289, available at <http://www.wto.org>

### Box 12: Formal requirements affecting decisions and notifications in trademarks procedures

- (a) provide to the applicant a communication in writing (electronically if possible) of the reason for any refusal to register the trademark. This obligation is consistent and complements those referred under the TRIPS Agreement (Articles 41.3 and 49)
- (b) provide to the applicant an opportunity to respond to communications from the trademark authorities, contest an initial refusal and appeal judicially any final refusal to the register of the trademark. In the TRIPS Agreement there is no obligation for Members to provide an opportunity, neither to respond to communications from the trademark authorities, nor to contest an initial refusal. Nevertheless, similar provisions are already contained under the Chilean trademark law. The obligation for review of final administrative decisions by a judicial authority is already in the TRIPS Agreement (Article 41.4).
- (c) include a requirement that decisions in opposition or cancellation proceeding be reasoned and in writing. According to the TRIPS Agreement (Article 62.4) opposition or cancellation procedures shall be governed by paragraphs 2 and 3 of Article 41; this means that decisions "shall preferably be in writing and reasoned".

TRIPS, some differences remain between both countries over the scope and the means of protection available for geographical indications (GIs).

Based on information given by its Members, the WTO Secretariat has identified three broad categories of systems to protect GIs<sup>282</sup>: (i) laws focusing on business practices; (ii) trademark law, and (iii) special means of protection. More than one of these means may be available at the same time in a certain country to grant protection for GIs.

Laws focusing on business practices normally prohibit those practices which may involve the misuse of a GI such as acts involving the use of a GI which contravenes the standards provided for under unfair competition, consumer protection or other similar laws. To gain protection under this system there is no need for any prior recognition of the GI. It seems that Chile and the USA have this option available under their domestic legislation on unfair competition.

The second category corresponds to the protection of GIs under trademark law, which basically provides for two types of protection: against the registration and use of a GI as a trademark and/or against unauthorized use by third parties<sup>283</sup>. Again, the USA and Chile seem to have available these means of protecting GIs, but with some important differences. While in the US geographical indications may be pro-

tected as collective or certification marks, in Chile a name consisting of a GI, cannot be protected as a trademark.<sup>284</sup>

Finally, the third category is a *sui generis* system, which refers to special and specific dedicated laws for the protection of GIs. It constitutes the current and prospective Chilean approach for the protection of both domestic and foreign GIs<sup>285</sup>. In the USA, although wines and spirits are protected through trademark law, special administrative regulations are also in place<sup>286</sup>.

Besides the framework of protection under the section on GIs, to protect their own indications, Chile and the USA agreed to follow the same approach as provided for under the NAFTA and protect them as distinctive products. Thus, Chapter Three of the FTA dealing with "National Treatment and Market Access for Goods" governs particular GIs<sup>287</sup> (Box 13).

### Box 13: Mutual obligation to the protection of particular GIs

According to the FTA, Chile shall recognize "Bourbon Whiskey" and "Tennessee Whiskey" as distinctive products of the USA and Chile shall not permit the sale of any product with those names within its territory, unless it has been manufactured in the USA in accordance with its domestic laws and regulations governing the manufacture of those products.

On the other hand, the USA shall recognize "Pisco Chileno" (Chilean Pisco), "Pajarete" and "Vino Asoleado" as distinctive products of Chile, and the USA shall not permit the sale of any product with those names within its territory, unless it has been manufactured in Chile in accordance with its domestic laws and regulations governing the manufacture of those products.

One superficial reading of this mutual obligation is that recognition of specific GIs in the Market Access Chapter instead of listing the same specific GIs in the IP Chapter, is to ensure that listed GIs will be granted only market access, respectively, to the USA and Chile. However, the provisions of the Market Access Chapter go beyond access and provide a strong protection to the listed geographic terms. In fact, besides allowing for the importation of the listed products, the Parties committed themselves to ban the sale of the unauthorized products bearing those GIs within their territories.

The FTA<sup>288</sup> provides exactly the same definition of GI as the one provided in the TRIPS Agreement<sup>289</sup>. Nevertheless, a second sentence was added to the relevant paragraph, which makes the concept much broader than the one contained in the TRIPS Agreement. In effect, to allow the protection of GIs under the trademark system, a second sentence was

<sup>282</sup>WTO Review Under Article 24.3, 2003, p 7

<sup>283</sup>WTO Review, 2003, p 11

<sup>284</sup>Article 20(e) and (f), Chilean Law No. 19.039

<sup>285</sup>Currently Chile only protects certain GIs for domestic wines and spirits through special laws, regulations and decrees. A draft law is pending in the Chilean Parliament, which will provide a *sui generis* means of protection of domestic and foreign GIs through a registry

<sup>286</sup>NAFTA and the bilateral agreements of the USA respectively with Jordan, Australia and Singapore do not include detailed provisions on GIs, as is the case of the FTA and CAFTA. Nevertheless, not all the provisions regarding the protection of GIs have a similar drafting. The recent agreement with Morocco, Chapter 15, also covers GIs

<sup>287</sup>Article 3.15, FTA

<sup>288</sup>First sentence of article 17.4.1, FTA:

"Geographical indications, for the purposes of this Article, are indications which identify a good as originating in the territory of a Party, or a region or locality in that territory, where a given quality, reputation, or other characteristic of the good is essentially attributable to its geographical origin."

<sup>289</sup>Article 22.1, TRIPS

included in the FTA. This extends the possibility that a trademark – in the approach followed by the USA, which includes collective and certification marks – could be protected as a GI. In doing so, part of the definition of trademarks has been included in the FTA by providing that:

Article 17.4.1: “...Any sign or combination of signs (such as words, including geographical and personal names, letters, numerals, figurative elements, and colors)<sup>290</sup> in any form whatsoever shall be eligible for protection or recognition as a geographical indication”<sup>291</sup>.

While the TRIPS Agreement preserves a clearer distinction between trademarks and GIs as different categories of IPRs, the FTA seems to bring them closer.

The new definition given in the FTA is extremely broad and might produce some unexpected consequences. For example, any WTO Member could request Chile or the USA, according to the MFN principle, to extend protection to signs or combination of signs as GIs. While the trademark elements added to the GIs definition might broaden the scope of denominations protected via GIs, this may be at the expense of indiscriminate filing and registration of GIs. Because the standard of protection for GIs in TRIPS is rather objective, in the sense that the good must have originated in a certain territory and a given characteristic of the good must be attributable to that origin, one could assume that the registration should be more or less automatic. Yet GIs protected through trademarks must still be subject to the distinctiveness or secondary meaning test, because GIs are essentially descriptive terms (i.e. non-inherently distinctive).

A new distinction concerning the legal means that each Party should provide to the other to protect GIs was introduced in the FTA<sup>292</sup>. Chile shall provide the legal means to identify and protect GIs of “United States persons” that meet the criteria contained in the common definition of geographical indications. However, the USA shall provide the legal means to identify and protect Chilean GIs that meet the criteria contained in the common definition. The difference lays in the use of the concept “person” contained in the obligation by

Chile. Because, as explained earlier, the USA protects GIs through a system of collective and certification trademarks, the owners of the US indications are usually legal persons. For all purposes, the FTA defines “person”<sup>293</sup>, as “a natural person or an enterprise”. On the contrary, to-date, Chile protects its GIs through specific laws and regulations, and technically, the owner of the Chilean GIs is the Chilean State because GIs - at least in the wine and spirit sectors - are created through Presidential Supreme Decrees<sup>294</sup>. Thus, for purposes of the GI provisions, a footnote<sup>295</sup> states that – besides natural persons and enterprises – “persons of a Party shall also mean government agencies” which means that in the case of Chile (and eventually the USA), government agencies may file for GIs in the USA (or Chile) on behalf of the Chilean State.

Due to the same considerations, a special provision was included in the FTA for those GIs relating to wines and spirits. It means Chile shall provide to the GIs of the USA the same recognition as Chile accords to wines and spirits under the Chilean GI system. This provision might be considered redundant because of the national treatment principle in the Agreement. The USA shall provide to Chilean GIs the same recognition as the USA accords to wines and spirits under the Certificate of Label Approval system as administered by the Alcohol and Tobacco Tax and Trade Bureau of the Department of Treasury or any successor agencies, notwithstanding the provisions of the US Trademark Act<sup>296</sup>.

Additional provisions in the FTA aim at:

- Simplifying formalities for the protection or registration of GIs<sup>297</sup>;
- Providing publicity and transparency of the regulations pertained thereto<sup>298</sup>;
- Establishing opposition procedures and guidelines regarding the processing of application or petitions<sup>299</sup>; and,
- Establishing special grounds for refusing protection of GIs by favouring pre-existing trademarks<sup>300</sup>.

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<sup>290</sup>The bracketed clarification it is not in CAFTA but does exist in the US- Morocco BTA

<sup>291</sup>See also footnote 3, FTA

<sup>292</sup>Articles 17.4.2 and 17.4.3, FTA. These two provisions are not found in CAFTA or the US-Morocco FTA

<sup>293</sup>Article 2.1, FTA, on General Definitions

<sup>294</sup>See Article 27 of Chile's Law 18.455, which "Sets Rules on Production, Elaboration, and Commercialisation of Ethylic Alcohols, Ethylic Beverages and Vinegars". Article 27: "The

President of the Republic, by supreme decree issued through the Ministry of Agriculture, may establish vine-producing zones and denominations of origin for wines and spirits in certain areas of the country, where conditions of weather, soil, varieties of grapes, cultural and oenological practices are homogeneous" (non-official translation)

<sup>295</sup>Footnote 5 to Article 17.4, FTA

<sup>296</sup>Lanham Act § 2(a) [Title 15 U.S.C. § 1052(a)]

<sup>297</sup>Article 17.4.5, FTA

<sup>298</sup>Article 17.4.6, FTA

<sup>299</sup>Article 17.4.7 and 8, FTA

<sup>300</sup>Article 17.4.10, FTA: "After the date of entry into force of this Agreement, each Party shall ensure that grounds for refusing protection or registration of a geographical indication include the following: (a) the geographical indication is confusingly similar to a pre-existing pending good faith application for a trademark or a pre-existing trademark registered in that Party; or (b) the geographical indication is confusingly similar to a pre-existing trademark, the rights to which have been acquired through use in good faith in that Party"

# 4. Enforcement and dispute settlement

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## 4.1 Introduction

The enforcement of rights and obligations is a key component of trade agreements. The existence of a dispute settlement mechanism also provides guarantees to the Parties that the problems that may arise because of the implementation and enforcement of commitments will be resolved in an orderly manner. In other words, these mechanisms are established to ensure that Parties will be able to fulfil their commitments and to protect their interests more effectively. In the FTA, as in the WTO system, within the IPRs Chapter itself there are specific rules on the enforcement of those rights, and in a separate chapter there is an FTA mechanism for the settlement of all disputes related to the Agreement. This part of the study looks at these two important procedural components of the FTA.

## 4.2 Enforcement, acquisition and maintenance of rights

### 4.2.1 General provisions

The enforcement provisions of the FTA follow the same structure as the TRIPS Agreement. Accordingly, it contains provisions dealing with General Obligations; Civil and Administrative Procedures; Provisional Measures; Border Measures; and Criminal Procedures. For the USA<sup>301</sup>, probably the most important achievement in this area was to make mandatory many of the discretionary remedies included under TRIPS. The important novelty of the FTA, as far as TRIPS and the WIPO Internet Treaties are concerned, is that it provides for “Limitations on Liability of Internet Service Providers”.

As discussed elsewhere in this study, the FTA does not include the so-called “freedom of implementation” clause found in TRIPS (Article 1.1) that recognizes that Members

“shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice”.

Probably, because both countries have very different legal systems, they incorporated a TRIPS-type provision in the enforcement part of the FTA:

17.11.1: “Each Party shall ensure that procedures and remedies set forth in this Article for enforcement of intellectual property rights are established in accordance with

its domestic law. Such administrative and judicial procedures and remedies, both civil and criminal, shall be made available to the holders of such rights in accordance with the principles of due process that each Party recognizes as well as with the foundations of its own legal system.”

Though no one could expect to find too many differences between the principles of due process in Chile and the USA, there may be some differences in other respects relating to the different legal systems prevailing in both countries. TRIPS (Article 41) limits enforcement provisions specifically to the IPRs covered by the Agreement, while the FTA does not appear to limit the application of the enforcement provisions to the particular IPRs covered by the FTA. Therefore, the procedures and remedies established in the FTA should apply to all IPRs protected by each Party, including for example plant breeders rights or rights of broadcasting organizations, which are not dealt with in the FTA. One could also assume that the same provisions should eventually apply to prospective related rights such as protection of non-original databases, or protection for traditional knowledge and folklore.

In the same vein as TRIPS, the FTA provides that there is no need to create a special enforcement system for IPRs, distinct from that existent for law enforcement in general. There is neither an obligation to assign special resources for the enforcement of IPRs, different from that for the law in general, but this shall not excuse a Party from compliance with the provisions on enforcement of the FTA<sup>302</sup>, which already by itself constitutes a TRIPS-plus standard.

Other general provisions on enforcement refer to transparency and writing requirements of final judicial decisions. Though TRIPS (Article 41.3) provides that decisions on the merits of a case shall preferably be in writing, the FTA limits this flexibility to final decisions on the merits of a case of general application.

In case a Party collects information on the efforts that it makes to improve enforcement, that information must be publicized or made available to the public. This provision under the FTA (Article 17.11.4), which is not found in TRIPS, might be considered a useful tool to demonstrate the effectiveness of the domestic enforcement mechanisms. It could also have a persuasive role in reducing infringements and may be a means to demonstrate the efforts made and the amount of resources being dedicated to the enhancement of

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<sup>301</sup>Note that the IFAC-3-Chile, 2003, report states (p 17) that the agreement makes some “significant advances” towards deterring further infringements,

and clarifies and builds upon existing TRIPS standards.

<sup>302</sup>See last sentence of Article 17.11.2 (b), FTA

enforcement mechanisms. For the industry this provision would also permit it to evaluate performance and inform the public about the importance of IPRs and the risks attendant upon their infringement.

Though the FTA (Article 17.11.7) suggests that civil judicial procedures shall be available to right holders for the enforcement of any IPR, it specifically provides for civil remedies in case of infringement of both the technological protection measures (TPMs) and the rights management information (RMI) provisions in the copyright section of the FTA. This specific and special reference to TPMs and RMI is an admission that they are not strictly IPRs *per se*, but something that borders in between IPRs and general property law. Indeed, when the FTA, as well as the WCT and the WPPT, deal with TPMs, they refer to measures “used by authors in connection with the exercise of their rights”. Though TPMs have been incorporated into copyright and related rights treaties (WIPO 1996 Treaties) and consequently into copyright laws, they could be dealt with in general property laws. Technically, TPMs serve a much broader purpose than protecting copyright. As was explained above, the same technology that is used to protect works and phonograms is also used to safeguard material that does not qualify as copyright, such as non-original material or once copyrighted works that have already fallen in the public domain.

Finally, among the general provisions on enforcement there are two important legal copyright presumptions. The first one is a presumption of authorship. The Parties agreed that

Article 17.22.6(a): “The natural person or legal entity whose name is indicated as the author, producer, performer, or publisher of the work, performance, or phonogram in the usual manner, shall, in the absence of proof to the contrary, be presumed to be the designated right holder in such work, performance, or phonogram.”

There is no similar provision in the TRIPS Agreement, but there is one in the Berne Convention<sup>303</sup> (incorporated in TRIPS by default, Article 9.1). But, the FTA goes beyond TRIPS (Berne) in two aspects. First, it explicitly applies the presumption of authorship to legal entities (“legal entity whose name is indicated as the author”), thus narrowing the gap between Chile’s system of rights of authors (*Derecho de Autor*) and the US copyright system<sup>304</sup>. Secondly, the FTA extends the presumption of authorship in Berne to related rights holders, a presumption that is not included in the Rome Convention.

The second copyright presumption is that:

Article 17.11.6(b): “It shall be presumed, in the absence of proof to the contrary, that the copyright or related right subsists in such subject matter. A Party may require, as a condition for according such presumption of subsistence, that the work appear on its face to be original and that it bear a publication date not more than 70 years prior to the date of the alleged infringement”.

This provision shifts the balance of copyright/public domain in the sense that everything should be considered protected (copyrighted), save for subject matter that evidently has fallen into the public domain. In other words, the burden of proof of demonstrating that a work is protected falls on the general public that uses original works and not on the supposed author. Thus, under this provision the burden of proof regarding infringement or lack of infringement is reversed, falling on the defendant. Pre-FTA, it was presumed that copyright on original works was exceptional; post-FTA, the presumption of subsistence of copyright becomes the general rule. Parties, however, are free to provide that the presumption will only be valid on two conditions: that the work appear on its face to be original and that it bear a publication date not more than 70 years prior to the date of the alleged infringement. The 70 years from publication term is the equivalent to the term of protection granted to legal persons.

#### 4.2.2 Civil and administrative procedures and remedies

For civil judicial procedures the FTA states that:

Article 17.11.7: “Each Party shall make available to right holders<sup>305</sup> civil judicial procedures concerning the enforcement of any intellectual property right.”

This phrase was practically copied from TRIPS (Article 42), with some qualifications. While TRIPS provides that civil procedures will be available for the enforcement of only the IPRs covered by the Agreement, the FTA does not limit civil procedures to the rights covered by the Agreement. This seems to be simply a reiteration of the general principle examined earlier (Article 17.11.1, FTA), which with respect to TRIPS also broadens the scope of application of the enforcement provisions of the FTA to all kinds of IPRs<sup>306</sup>. In any case, in Chile, civil procedures are available for all types of IP infringements.

The FTA further provides (Article 17.11.8(a)) that damages should be paid by the infringer to compensate for the injuries suffered by the right holder, without qualifying the nature of the infringement. The equivalent provision in the TRIPS

<sup>303</sup>Article 15.1, Berne: “In order that the author of a literary or artistic work protected by this Convention shall, in the absence of proof to the contrary, be regarded as such, and consequently be entitled to institute infringement proceedings in the countries of the Union, it shall be sufficient for his name to appear on the work in the usual manner”

<sup>304</sup>Article 15.3, Berne, does apply a presumption of authorship to legal persons in the case of cinematographic works: “The person or body corporate whose name appears on a cinematographic work in the usual manner shall, in the absence of proof to the contrary, be presumed to be the maker of the said work”

<sup>305</sup>Footnote 29, FTA, states: “the term “right holder”

shall include duly authorized licensees as well as federation and association having legal standing and authorization to assert such rights.”

<sup>306</sup>According to Chilean negotiators there was an attempt to make such limitation by adding at the end of the relevant provision the sentence “of any intellectual property rights recognized by the Party”, but this proposal failed to be agreed

Agreement<sup>307</sup> limits damages to an infringement of the rights by an infringer who “knowingly, or with reasonable grounds to know, engaged in infringing activity”. Therefore, innocent infringement according to TRIPS may be excluded<sup>308</sup>; however, it is not apparent whether that possibility is open in the FTA.

Also for damages, at least in cases of trademark and copyright infringement, the infringer may be ordered to pay to the right holder the profits resulting from the infringement that were not considered when determining the injury. In characterizing injury, the judicial authorities shall consider, among others, the legitimate retail value of the infringed goods.

The provisions related to civil procedures imply in some respects major changes in the Chilean procedural system, particularly as compared to the obligations in TRIPS. For example, according to the FTA, the Parties agreed to institute pre-established damages at least in cases of copyright and trademark counterfeiting. This is a significant TRIPS-plus standard in the sense that in the latter this is only an optional remedy. In the Chilean system, damages are only supposed to compensate for the losses caused by the injury. So, theoretically, damages may never exceed the actual prejudice suffered by the right holder. The obligation of statutory damages alters drastically the Chilean general system of compensatory damages upon which IPRs had traditionally relied<sup>309</sup>.

Another major change that will be brought about by the FTA<sup>310</sup> is that in civil judicial proceedings, courts may order the destruction of the infringing goods, and of materials and implements used in the manufacture of the infringing goods. In Chile, this possibility exists only in criminal proceedings; therefore, the Chilean civil law would have to be amended accordingly.

These two cases are good examples on how national procedural systems for IPRs enforcement would radically evolve as a result of the FTA. In the case of pre-established damages, this will mean the importation of procedural institutions from a common law system into a civil law system. For the destruction of goods, it translates into the import of institutions from criminal to civil judicial proceedings.

Besides providing for the destruction of infringing goods, Parties agreed that in exceptional cases, the charitable donation of infringing goods without the authorization of the right

holder would be permitted as long as it does

Article 17.11.12(b): “not conflict with the normal exploitation of the work, performance, or phonogram, and do(es) not unreasonably prejudice the legitimate interests of the right holder”.

Other provisions related to judicial civil proceedings refer to payment of court costs<sup>311</sup> and reasonable attorney fees to the prevailing party; the seizure of infringing goods, materials and implements; and with the infringer providing information<sup>312</sup> about other persons involved in the infringement and the channels of distribution used for infringing.

#### 4.2.3 Provisional measures

The FTA (Article 17.11.15) complements TRIPS (Article 50.2) in the sense that provisional measures *inaudita altera parte* (without hearing the other party) must be acted upon expeditiously in accordance with judicial procedural rules of each Party.

It seems also that the FTA allows authorities to request evidence from the applicant only when the infringement of the right is imminent, not when it is already being infringed, as provided in TRIPS (Article 50.3). What the FTA adds to TRIPS is that reasonable security or equivalent assurance must be in an amount sufficient, not only to protect the defendant and to prevent abuses, but also not to unreasonably deter recourse to such procedure.

The FTA provides further that the costs of appointing experts<sup>313</sup> must be reasonable or based in standardized fees and shall not unreasonably deter recourse to provisional relief. There is no equivalent provision in TRIPS, but it follows from the general principle that enforcement procedures should not become unreasonably complicated and costly<sup>314</sup>.

#### 4.2.4 Border measures

As far as border measures are concerned, the FTA goes beyond TRIPS particularly in one aspect. The latter Agreement provides for border measures, including *ex officio* actions, only for the importation of counterfeit trademarks or pirated goods. The application of border measures to goods being exported and to goods in transit<sup>315</sup> is optional. The FTA is TRIPS-plus in the sense that it provides for *ex officio* measures for goods being imported, as well as for those destined for export or moving in transit.

<sup>307</sup>Article 45.1, TRIPS

<sup>308</sup>This provision may open the discussion of whether IPR statutes, in particular copyright laws, are strict liability statutes, where infringement may occur regardless of whether damage or infringement is committed wilfully or without knowledge of the illegal conduct

<sup>309</sup>According to Chilean negotiators a previous version of this same provision provided that the statutory damages should be in an amount sufficient enough to deter future infringement and to compensate the right holder for the harm caused by the infringement. During the negotiations this was changed by the establishment of pre-estab-

lishment damages that the judicial authorities deem reasonable in light of the goals of the IP system and the objectives set forth in the IP Chapter of the Agreement (Article 17.11.9)

<sup>310</sup>Article 17.11.12 (a), FTA

<sup>311</sup>According to sources consulted in the preparation of this work this particular matter was largely discussed because earlier proposals on the matter provided that the prevailing party in civil judicial proceedings should not be required to pay court costs. This proposal did not succeed

<sup>312</sup>Under Article 47, TRIPS, Members may provide that the judicial authorities shall have the power to order the infringer to inform the right holder of the

identity of third persons involved in the production and distribution of the infringing goods and of their channels of distribution. According to Article 17.11.13, FTA, it is an obligation for the Parties to provide the judicial authorities with such an authority. In addition to TRIPS in these cases, the judicial authorities shall also have the authority to impose fines or imprisonment on the infringer who does not comply with such orders

<sup>313</sup>The TRIPS Agreement does not contain specific provisions regarding the appointment of experts as a provisional measure.

<sup>314</sup>Article 41.2, TRIPS

<sup>315</sup>Footnote 13, TRIPS

## 4.2.5 Criminal procedures and remedies

As in TRIPS, the FTA provides for criminal measures at least for cases of wilful trademark counterfeiting or copyright piracy on a commercial scale. But it goes beyond TRIPS in that it broadens the scope of what is considered a wilful infringement on a commercial scale for two specific situations that probably had in mind copyright infringement in the digital environment.

The first relates to the obligation of the Parties to ensure that

Article 17.11.22(a): "...wilful infringement of copyright and related rights for a commercial advantage or financial gain, is subject to criminal procedures and penalties."

This provision seems to disregard the quantitative "commercial scale" requirement in TRIPS and replaces it with the notion of a "commercial advantage or financial gain" element, which focus more on the purpose of the infringement, even if it is not made at a commercial scale.

But this important provision, while being broad enough, is narrowed down by provisions that clarify that for purposes of criminal procedures,

Footnote 33, Article 17.11.22: "...evidence of reproduction or distribution of a copyrighted work, by itself, shall not be sufficient to establish willful infringement

and

Footnote 34: "...commercial advantage or financial gain shall be understood to exclude de minimis infringements.

This rider seems to limit judicial action with respect to the transmission and exchange of files in computer networks (peer to peer technology), implying that it is not bad in itself and there are legitimate uses for such technology, such as the exchange of uncopyrighted files. Therefore, the claimant will still have to prove that the infringement was wilful and done for a commercial advantage or financial gain.

A further clarification acknowledges<sup>316</sup> that

Article 17.11.22(a)(ii): "...copyright or related rights piracy on a commercial scale includes the willful infringing reproduction or distribution, including by electronic means, of copies with a significant aggregate monetary value, calculated based on the legitimate retail value of the infringed goods;"

This also seems to be tackling the problem of infringements in the digital environment, particularly the distribution or exchange files in the Internet. The words "copies with significant aggregate monetary value" refers mainly to computer software, not to text, music or video files.

Other provisions of the FTA with respect to criminal procedures provide for detailed rules on seizure, forfeiture and destruction of infringing goods and elements used in the infringements. Finally, the FTA provides that appropriate authorities in cases of copyright piracy and trademark counterfeiting, could exercise legal action *ex officio* without the need for a formal complaint.

## 4.2.6 Limitations on liability for Internet Service Providers<sup>317</sup>

The FTA provides for detailed rules on the limitation of responsibility for Internet Service Providers (ISPs). These provisions are based in the US Copyright Act<sup>318</sup>. This issue was extensively discussed during the negotiations, mainly because of its novelty in IP negotiations. Initially it was to be incorporated in the FTA as a side letter, but finally it was included in the IP Chapter itself. No such provisions can be found in NAFTA or in the trade agreement signed with Jordan. The treaty with Morocco, besides having very similar provisions, has also a side letter about the notification system to be established.

The FTA provides specific rules on liability of and limitation of the liability of services providers for infringing content that is transmitted or stored in their networks when they perform certain functions, such as hosting, caching or linking. This kind of provision is also included in the US agreements with Australia<sup>319</sup>, Singapore<sup>320</sup>, and CAFTA<sup>321</sup>.

The relevant provisions of the FTA provide ISPs with safe harbours from cases of secondary liability for copyright infringement that takes place within their networks. Basically, ISPs could be considered liable for copies of copyrighted works that are stored or that transit through their networks, but that are not initiated, directed or controlled by them. The system of limitation of liability allows them to be exempted from monetary liability if they block access or take down infringing content as soon as they have knowledge of the supposed infringement, including through appropriate notifications from the right holders. The FTA leaves room for the Parties to devise the system through which notifications will be made.

There has been much criticism in the USA to the provisions on liability of ISPs, mainly because the DMCA would affect privacy right of users of the Internet. Specifically, the DMCA allows for right holders to request the clerk of any US district court to issue a subpoena to a service provider for identification of an alleged infringer. The FTA was careful enough to provide that Parties will

<sup>316</sup>This clarification seems to expand the concept of "piracy" from reproduction to include also distribution

<sup>317</sup>Article 17.12.23, FTA

<sup>318</sup>Title 17, Section 512, the Online Copyright Infringement Liability Limitation Act was incorporated into the Copyright Act as part of the Digital Millennium Copyright Act (DMCA), *inter alia*, to make US law compliant with the WIPO 1996

Treaties

<sup>319</sup>Article 17.11.29, US-Australia FTA

<sup>320</sup>Article 16.9.22, US-Singapore FTA

<sup>321</sup>Article 15.11.27, CAFTA

Article 17.11.23 (h): "...establish an administrative or judicial procedure enabling copyright owners who have given effective notification of claimed infringement to obtain expeditiously from a service provider information in its possession identifying the alleged infringer."

Thus, Parties will have to decide whether they implement this provision through a judicial procedure, as should be the case, or a quasi-judicial procedure as provided for in the DMCA.

### 4.3 *The FTA dispute settlement mechanism*

#### 4.3.1 **General considerations**

The Dispute Settlement Understanding (DSU) negotiated during the Uruguay Round was a major accomplishment of the multilateral trading system and represented a fundamental change from the mechanism established under GATT 1947. In the WTO system the dispute settlement mechanism is based on the principle that any Member can challenge trade measures taken by any other Member, so that even those countries that are economically weak can challenge the more economically powerful trade partners<sup>322</sup>. However, the practical application of this important principle is not necessarily straightforward. For example, a challenge by a country with a limited domestic market might not make a significant impression on a major trading partner, as was the case of Ecuador in 2000 threatening retaliation in the IP field in response to the European bananas regime<sup>323</sup>.

The same basic principle guides the FTA dispute settlement mechanism.

The need for dispute settlement arises whenever a Party to a trade agreement considers that benefits accruing to it under their commitments are being impaired through measures taken by the other Party. Since the Agreement is based on the idea of reciprocal and mutually advantageous economic benefits through trade liberalization, it is the principal objective of a dispute settlement to reinstall, as quickly as possible, a situation in which each Party can fully enjoy the benefits it is entitled to under the free trade agreement. For the realization of this objective, in the case of the WTO-DSU mechanism a very detailed and rules-based procedure is established, consisting of several different phases, each of which is subject to mandatory time frames<sup>324</sup>.

The main features of the WTO system are present in the FTA with some particular characteristics discussed in this section of the study.

The USA has long advocated greater transparency in the

WTO dispute-settlement system. According to that perspective, experience shows that the Dispute Settlement Body recommendations and rulings can affect large segments of civil society. At the same time, increased membership in the WTO has also meant that more governments and their citizens have an interest in those recommendations and rulings. Yet civil society and non-party Members have been unable even to observe the arguments or proceedings resulting in those recommendations and rulings.

In the FTAA negotiations, the proposals by the USA on dispute settlement pursue these similar objectives. In that forum, the overall goal of the dispute settlement proposal is to establish a mechanism to be perceived as fair, transparent and effective that would apply to disputes between governments about the interpretation or application of the agreement. The US proposal does not address any special rules that might be needed about disputes in particular areas; any such special rules would be developed as the negotiations proceed. Accordingly, disputes arising under both the FTAA and the WTO generally may be settled in either forum at the discretion of the complaining Party. This general rule is subject to an exception intended to minimize multiple litigation. Once an FTAA Party would have chosen a forum, the proposal would exclude recourse by that Party to any other forum.

#### 4.3.2 **The main features of the FTA mechanism**

The US demands, as briefly reviewed above, for greater transparency in the dispute settlement mechanism seem to be reflected in the FTA mechanism. The dispute settlement mechanism applies to almost all the different matters covered by the Agreement, except for some provisions related to Competition Policy, Designated Monopolies, and State Enterprises (Chapter 16)<sup>325</sup>. In addition, some special proceedings are included for financial services<sup>326</sup>, environment<sup>327</sup> and labour<sup>328</sup> issues, where technical consultations are established.

The agreed mechanism includes an alternative remedy to retaliation in certain disputes when a Party does not comply with the recommendation provided for in the panel report, which permits the respondent to pay an annual monetary assessment. Both Parties shall determine the amount or, if no agreement is reached, it should be equivalent to 50% of the level of the benefits the panel has determined to be of equivalent effect, or 50% of the level that the complaining Party has proposed to suspend. If the respondent fails to pay the monetary assessment, the other Party may suspend the application of benefits in accordance with the provisions of the FTA.

<sup>322</sup>Lacarte, 2000

<sup>323</sup>Bronkers, 2004

<sup>324</sup>See UNCTAD-ICTSD *Resource Book*, Chapter 5.3

<sup>325</sup>Article 16.8, FTA

<sup>326</sup>Article 12.17, FTA

<sup>327</sup>Article 19.5, FTA

<sup>328</sup>Article 18.6, FTA



#### Box 14: Different steps in the settlement of a dispute

As in the WTO dispute settlement mechanism, the first step is consultations between the Parties on any actual or proposed measure to be taken by one of them. Identification of the measure and indication of the legal grounds for the complaint shall be included in the request for consultations.

The main commitment of the Parties at this stage is to attempt to reach a mutually satisfactory solution of the matter subject to the consultations. If consultations fail, a Party may request a meeting of the Free Trade Commission<sup>329</sup> that has to meet within the time frames provided for in the FTA (Article 22.5.1). In such case the Commission may, alternatively, besides assisting Parties to reach a mutually satisfactory solution to the dispute, do the following:

- call on technical advisers;
- create a working group;
- create an expert group;
- have recourse to good offices, conciliation or mediation; or
- make recommendations.

If the Parties fail to resolve the dispute within the time frames set out in the FTA either Party may request the establishment of an arbitration panel to consider the matter. The request shall state the measure complained about and the provisions of the Agreement relevant to the dispute. An arbitration Panel is composed of three Members. The rules of procedure shall be established and modified by the Commission, and could be complemented by additional procedural rules adopted by the Panel, not inconsistent with the former. As in the WTO Understanding on Rules and Procedures Governing the Settlement of Disputes (Article 7), panels in the FTA have also standard terms of references.

Upon request of a Party or unless the Parties disapprove, the

Panel is entitled to seek information and technical advice on technical matters raised by a Party, including environmental, labour, health and safety matters, from any other person or body that it deems appropriate. This rule seems to be different from the DSU of the WTO.

The Panel report of the Arbitration Panel shall be based on the relevant provisions of the FTA and the submissions and arguments of the Parties. If the Parties agree, the Panel may also make recommendation to resolve the dispute.

The Parties shall agree on the resolution of the dispute. If the Panel determines that a Party has not conformed to its obligations or it is causing nullification or impairment, the resolution shall be to eliminate the non-conformity or the nullification or impairment. The Parties may agree on a mutually satisfactory action plan to resolve the dispute that normally shall conform to the determination and recommendation of the Panel.

If the Parties are unable to agree on compensations, the complaining Party may notify that it intends to suspend the application of benefits of equivalent effect. If the Party complained against considers that the level of benefits to be suspended is manifestly excessive or it has eliminated the non-conformity or the nullification or impairment that the Panel found, it may request that the Panel be reconvened to consider the matter. If the Panel determines that the level of benefits proposed to be suspended is excessive, it shall determine the level of benefits to be considered of equivalent effect.

Unless the Commission otherwise decides, a monetary assessment shall be paid to the complaining Party in equal, quarterly instalments, which shall be paid into a fund established by the Commission for appropriate initiatives to facilitate trade between the Parties.

The FTA, as in the case of the proposal in the FTTA, allows Parties to choose the forum in which a dispute should be settled when a matter arises under the Agreement and under another trade agreement (i.e., the WTO) to which Chile and the USA are parties. The complaining Party has the right to choose the forum. In that case, the selected forum shall be used to the exclusion of the others.

The mechanism includes basically consultations, good offices, conciliation and mediation, and the establishment of an Arbitration Panel. For the latter, the Agreement obliges the Parties to establish and maintain, within six months after the entry into force of the FTA, a roster of at least 20 individuals who are willing and able to serve as panellists in the various disputes that could arise, appointed by mutual agreement of the Parties. Six of these members shall be non-Party nationals. The roster remains in effect for a minimum of three years and panellists may be reappointed. Box 14 provides an overview of the different steps provided for in the FTA for the settlement of a particular dispute.

Finally, the dispute settlement mechanism applies, unless otherwise provided for in the Agreement:

- to the avoidance or settlement of all disputes between the Parties regarding the interpretation or application of the Agreement;
- whenever a Party considers that a measure adopted by the other Party is inconsistent with the obligations contained in the FTA or the Party has failed to carry out its obligations; and,
- whenever a Party considers that a measure of the other Party causes nullification or impairment.

#### 4.3.3 Non-violation complaints

As noted above, the FTA mechanism includes non-violation complaints as a component of the dispute settlement mechanism. In the WTO system<sup>330</sup>, the difference between violation and non-violation remedies is that, under violation complaints, the competitive relationship is upset through the violation by one Member of a WTO obligation, whereas under non-violation complaints, this competitive relationship is upset through “WTO-consistent” action on the part of one Member, rendering the results of certain market access concessions made by that Member less beneficial for other

<sup>329</sup>The “Free Trade Commission” comprises cabinet-level representatives of the Parties or their

designees, and, among other functions, supervises and oversees the enforcement of the FTA

<sup>330</sup>See UNCTAD-ICTSD *Resource Book*, Chapter 5.3

Members. It is considered a valid cause of action if one Member by some purely domestic measure frustrates the legitimate expectations of other Members as to the competitive advantages their products can draw from a negotiated tariff concession. However, such legitimate expectations may not be invoked if the complainant could “anticipate,” at the time of negotiating the concession, the possible adoption of future domestic measures by the respondent that would cancel out the complainant’s competitive advantage resulting from the negotiated concession. This requirement ensures that non-violation complaints are actually used in case of the frustration of legitimate expectations and not merely on grounds of a negative economic development. This distinction and rationale for non-violation complaints extend to the case of the FTA.

In the FTA, there are no specific rules in the IPRs Chapter on this matter; therefore, non-violation situations could be the source of differences between the parties and give rise to a dispute. However, the automatic application of non-violation complaints to IPRs is not obvious. In TRIPS, it was recognized that this was a subject deserving further consideration and transitional arrangements were devised to that effect. In the Council for TRIPS this continues to be an outstanding

question. A recent publication argues that:

“Bilateral agreements such as the recently concluded US-Chile, Central American Free Trade Agreement (CAFTA), and US-Australia, for instance, irrevocably place intellectual property within the scope of non-violation complaints. ...The effects of these complaints in relation to the rights of Parties to regulate intellectual property in the public interest could be significant. In addition, bilateral agreements eliminate particular elements of dispute settlement rules as they apply to non-violation, another issue the US has long advocated. The loss of these characteristics, designed to protect countries from challenges based on an inherently ambivalent claim, may prejudice developing countries with scarce resources to respond to an increasing number of vague claims, as well as make them more vulnerable to pressure to refrain from using flexibilities offered by intellectual property standards.”<sup>331</sup>

In brief, for non-violation complaints, the FTA clearly includes them in the dispute settlement mechanism and thus IPRs disputes could be based on measures by one Party considered by the other to cause nullification or impairment of the former expectations.

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<sup>331</sup>South Centre/CIEL, 2004. The report acknowledges that: “Nonetheless, these bilateral agreements establish some limitations for non-violation complaints that must be taken into account. In the US-Chile FTA, for instance, benefits expected

under the intellectual property chapter cannot be invoked with respect to measures taken under the general exception provisions. That is, measures taken under Article XX of GATT 1994 (incorporated, along with its interpretive notes, into the

agreements *mutatis mutandis*), cannot be challenged on the basis of nullification or impairment of benefits expected under the intellectual property provisions.”

## 5. Final remarks

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The TRIPS Agreement signalled a major change in international economic relations. For the first time IP entered in full into the international trading regime<sup>332</sup>. This, in a way, reflected the approach of the USA that since the Trade Act of 1974 established in its commercial relations a link between trade and adequate protection of IP. The reasons for including IPRs in the framework of the multilateral trading system during the Uruguay Round of Multilateral Trade Negotiations that concluded with the creation of the WTO are complex. The attempt was originally resisted by a number of developing countries. Countries expressed concerns, among others, on social interests grounds, about subjecting, for example, inventions related to public health and nutrition to strict patenting rules under a new trading regime<sup>333</sup>.

While TRIPS introduces minimum standards of protection, albeit with some flexibilities, recent trends suggest a more complex picture characterized as a TRIPS-plus phenomenon. It has elicited concerns as it goes beyond the minimum standards of TRIPS by seeking to harmonize IP regimes with those of economically and technologically more advanced countries. This harmonization trend is being encouraged in bilateral, regional and new multilateral initiatives<sup>334</sup>. The concerns advanced by some developing countries relate to the curtailment of their policy space in an important area of economic development. In brief, the perception by many is that TRIPS-plus requirements will inhibit countries from using fully the flexibilities implicit in the TRIPS Agreement<sup>335</sup> and to resort to industrial policies with laxer systems of IPRs protection, which were followed in the past by developed countries and until recently by newly industrialized countries<sup>336</sup>.

The TRIPS-plus phenomenon responds to the view that the Agreement is considered as not adequately reflecting the highest standards of IP protection needed to promote global trade and to respond to the requirements of the digital age. As a result, in recent years, the USA has followed a clear and explicit bilateral trade policy going beyond the TRIPS Agreement by including TRIPS-plus provisions in its free trade agreements post-NAFTA, which was, by the way, concluded almost in parallel with the Uruguay Round Negotiations. This bilateral agenda has included most issues

raised by the USA in various international fora, namely:

- the extension of copyright, trademark, and patents protection;
- the need to ratify certain IP-related treaties;
- patent protection for life forms;
- limitations in granting compulsory licences on patents;
- specific implementation of TRIPS provisions in areas such as undisclosed information;
- rules concerning the exhaustion of IPRs.

The closer study of the FTA is a stimulating incursion into this TRIPS-plus world. At this stage, it is difficult to assess the overall impact of the IP provisions of the FTA and even more to extrapolate results of such evaluation to other countries. The FTA is a comprehensive treaty, which in Chile's perception, together with a broad network of trade agreements with a multifarious group of trade partners, constitutes a dynamic feature of its economic policy geared at the promotion of exports of services and products with greater added value. Thus, the impact of this Agreement cannot be assessed in isolation of other considerations.

One tentative conclusion that one can derive from the FTA is that the level of its IPRs protection and enforcement provisions<sup>337</sup> are less stringent than those negotiated by the USA – simultaneously with Singapore and subsequently with CAFTA, Australia, Bahrain and Morocco<sup>338</sup>; however, it includes a number of key provisions that might constitute precedents for incorporation in future bilateral and multilateral agreements.

The provisions of the FTA dealing with pharmaceutical products, as well as those negotiated in the context of other US bilateral trade agreements have elicited a number of criticisms. In the FTA, the expanded protection of pharmaceutical products is, in some respects, conditioned to the principles set out in the Declaration on the TRIPS Agreement and Public Health that is specifically highlighted in the Preamble to Chapter 17 of the FTA. The Preamble is unique compared to the bilateral trade agreements signed by the USA. As noted in this study, the relation between, on one side, the Preamble and the general principles of the Agreement – such

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<sup>332</sup>Previous to the TRIPS Agreement, there were references to IPRs in the GATT-1947. For instance, Article IX deals with Marks of Origin; both Article XII on Restrictions to Safeguard Balance of Payments and Article XVIII on Governmental Assistance to Economic Development state that Parties may not apply restrictions which would prevent compliance with patent, trade mark, copyright, or similar proce-

dures. Finally, Article XX, which provides for general exceptions, allows for exceptions necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to the protection of patents, trade marks and copyrights, and the prevention of deceptive practices.

<sup>333</sup>Abbott, 2002

<sup>334</sup>Vivas-Eugui, 2003

<sup>335</sup>Commission on IPRs, 2002; UNCTAD-ICTSD, *Policy Discussion Paper*, Drahos, 2002

<sup>336</sup>Kim, 2003

<sup>337</sup>This fact is clearly highlighted in IFAC-3-Chile, 2003

<sup>338</sup>At the time of writing, the US free trade agreements with CAFTA, Australia, Bahrain and Morocco are still in the process of ratification.

as the non-derogation clause – and on the other, the provisions dealing with pharmaceutical products are, at least, ambiguous. This ambiguity permeates the entire Chapter 17.

Among the areas not covered by this Chapter, unlike the proposed FTAA, is the granting of compulsory licences to allow for the use of the subject matter of a patent. In this area, as well as in others not covered by the Agreement, the latter does not innovate. However, Abbott concludes that in some cases, in particular the agreements of the USA with CAFTA and Morocco,

“...the provisions relating to patents and regulatory approvals with respect to medicines ... are intended to restrict the flexibilities inherent in the TRIPS Agreement, Doha Declaration and Decision on Implementation of Paragraph 6... They appear designed to negate the effective use of compulsory licensing by blocking the marketing of third party medicines during the term of patents.”<sup>339</sup>

The FTA, as reiterated in this study, does not address the whole gamut of IPRs issues. For example, in an area where a number of developing countries have claimed that international IP regimes fail to account adequately for traditional knowledge, the FTA does not provide guidelines and does not innovate with respect to current debates in the Council

for TRIPS and WIPO.

The FTA does not address either the issue of the exhaustion of IPRs in areas such as patents and trademarks. In this respect, the Doha Declaration on the TRIPS Agreement and Public Health of 14 November 2001 reaffirmed the right of WTO members to use, to the full, the provisions in the TRIPS Agreement, which provide flexibility by leaving each member free to establish its own exhaustion regime. The US FTA with Australia, however, allows for the possibility that in the case of patents, the patent owner may contractually restrict the importation of patented products that it has placed on the market. The FTA leaves Parties with the full flexibility contemplated in TRIPS.

Thus, there are some differences between the FTA and the other free trade agreements recently signed by the USA. Although they follow the same structure and have many similarities, there are, as described in this paper, some substantive nuances among them.

Finally, as underlined in this study, the recent bilateral agreements promoted by the USA add an uncharted page in the history of IPRs. TRIPS has been one important event in this history but not the concluding one. This study has attempted to contribute to the understanding of this trend.

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<sup>339</sup> Abbott, 2004

# Acronyms

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ACPA	Anti-cybersquatting Consumer Protection Act	ISPs	Internet Service Providers
APEC	Asia-Pacific Economic Cooperation	MFN	Most-favoured nation
BTAs	Bilateral Trade Agreements	NAFTA	North America Free Trade Agreement
CAFTA	Central America Free Trade Agreement	NICs	Network Information Centres
CTEA	Copyright Term Extension Act	QIAP	Quaker International Affairs Office
DMCA	Digital Millennium Copyright Act	QUNO	Quaker United Nations Office
DSU	Dispute Settlement Understanding, WTO	PLT	Patent Law Treaty
EC	European Commission	RMI	Rights Management Information
ECLAC	Economic Commission for Latin America and the Caribbean	SACU	Southern African Customs Union
EFTA	European Free Trade Association	TPA	Trade Promotion Authority
EU	European Union	TLD	Top Level Domain
FDA	Food and Drug Administration	TPMs	Technological protection measures
FTA	Free Trade Agreement between Chile and the United States	TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
FTAA	Free Trade Area of the Americas	UDRP	Uniform Domain-Name Dispute-Resolution Policy
GATT	General Agreement on Tariffs and Trade	UNCTAD	United Nations Conference on Trade and Development
GIs	Geographical Indications	US	United States
GNP	Gross National Product	USA	United States of America
GSP	Generalized System of Preferences	USC	United States Code
IANA	Internet Assigned Numbers Authority	UPOV	International Union for the Protection of New Varieties of Plants
ICANN	Internet Corporation for Assigned Names and Numbers	VCLT	Vienna Convention on the Law of Treaties
ICTSD	International Centre for Trade and Sustainable Development	WCT	WIPO Copyright Treaty
IFAC	Industry Functional Advisory Committee	WIPO	World Intellectual Property Organization
IP	Intellectual property	WPPT	WIPO Performances and Phonograms Treaty
IPRs	Intellectual property rights	WTO	World Trade Organization

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# Annex A: The Chilean Intellectual Property System

The current industrial property law of Chile was enacted on 25 January 1991 while the copyright law was enacted on 2 October 1970 but has been amended several times since then. These two statutes cover the most important areas of intellectual property rights, mainly patents (including “utility models”), trademarks, industrial designs, copyrights and related rights. Other categories of intellectual property rights (such as undisclosed information, plant varieties, geographical indications, etc.), are regulated under a number of different pieces of legislation<sup>340</sup>. A draft law to adapt the Chilean industrial property law to the TRIPS Agreement and to bilateral agreements signed in recent years, is under consideration in Congress and expected to be approved in 2004.

The Department of Industrial Property of the Ministry of Economy is in charge of granting patents (including utility models), trademarks and industrial designs, while the Archives and Museums Directorate of the National Library is in charge of the deposit of works subject to the protection of copyright and related rights. The Seeds Department of the Agriculture and Cattle Service grants protection for new plant varieties.

Chile is a Member of a number of international intellectual property agreements concluded under the auspices of WIPO, as shown in Table 1.

The industrial property law of 1991 was an important development given the prevailing standards in Latin America. During the legislative discussions of the draft law there was a lively and controversial debate on the merits of the

patentability of pharmaceutical products, which were until that time not subject to patent protection according to the law of 1931, as was the pre-TRIPS practice in all Latin America and other countries. While domestic manufacturers of pharmaceutical products wanted to delay, for at least ten years, the patentability of those products, the international research-based industry pressed hard to have “pipeline protection”. Finally the law provided for an “*in actum*” (prospective, non-retroactive) protection for all unpatented products. The importance of this outcome was that Chile broke the international tendency until the late 1980s where the granting of patents to pharmaceutical products was not automatic, as even recognized in the transitional provisions of the TRIPS Agreement.

Although the number of patent applications has grown considerably in Chile since 1991 (by over 200%), the total amount remains not very significant in comparison to developed countries or even other Latin American countries<sup>342</sup>. In addition, even though the number of domestic patent applications has increased by 100% since 1991, this represents only about 11% of the total number of applications submitted every year<sup>343</sup>. Table 2 provides a broad picture of the number of patent applications and those granted in Chile since the new law was enacted.

A large number of patent applications and patents granted belong to foreign applicants Nowadays, almost 90% of patent applications and 87% of patents granted in Chile belong to that category, as shown in Table 2.

**Table. 1 Intellectual property treaties to which Chile is a Party**

Agreement, convention or treaty to which Chile is a Party	Date on which Chile became party
Berne Convention for the Protection of Literary and Artistic Works (Paris Act)	June 5, 1970 (July 10, 1975)
Convention Establishing the World Intellectual Property Organization (WIPO)	June 25, 1975
WIPO Copyright Treaty (WCT)	March 6, 2002
WIPO Performances and Phonograms Treaty (WPPT)	May 20, 2002
International Convention for the Protection of New Varieties of Plants, UPOV (1978 Act)	January 5, 1996
Paris Convention for the Protection of Industrial Property (Stockholm Act)	June 14, 1991
Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations	September 5, 1974

Source: Information obtained from the WIPO online data, available at: <http://www.wipo.int/treaties/>

<sup>340</sup>See the notification made by Chile to the TRIPS Council under Article 63.2, TRIPS on its main IP laws and regulations (Annex I) and other laws and regulations (Annex II), WTO document IP/N/1/CHL/1. The document is available at [http://docsonline.wto.org/GEN\\_searchResult.asp](http://docsonline.wto.org/GEN_searchResult.asp). Some of the laws and regulations referred to in the document are available in the WIPO

Collection of Laws for Electronic Access, CLEA, at: <http://clea.wipo.int/clea/lpext.dll?f=templates&fn=main-h.htm&2.0>

<sup>341</sup>As provided under the Spanish patent law of 1981

<sup>342</sup>In 2001, for instance, Colombia received 44,945

patents applications, while Brazil 94,007 and Ecuador 28,909. See WIPO statistics available at: <http://www.wipo.int/ipstats/en/index.html>

<sup>343</sup>The relative importance of domestic applications has greatly decreased since 1991, when 21% of the total number of applications corresponded to domestic patent applications



**Table. 2 Chile: Number of patent applications and patents granted**

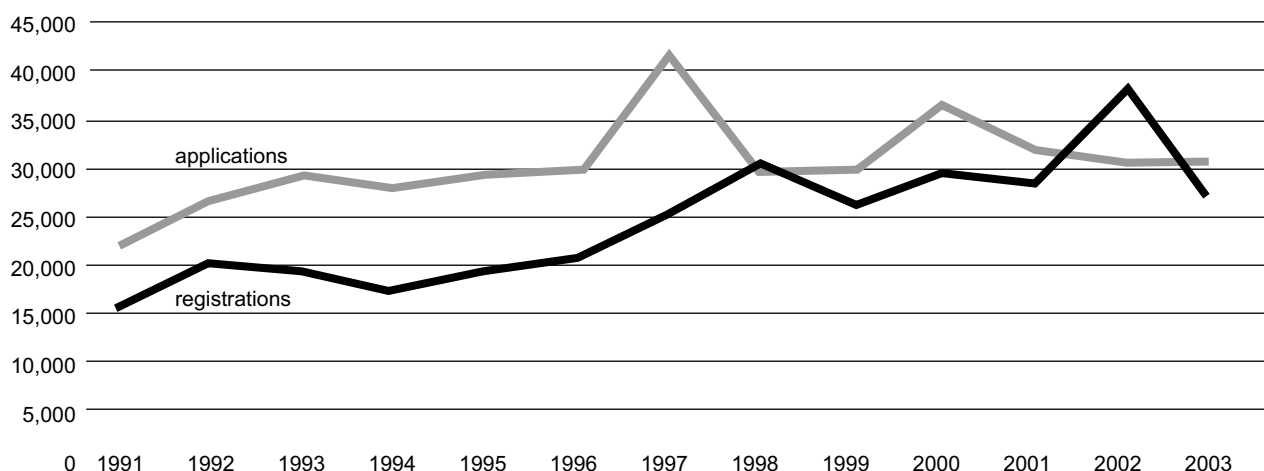
Year	Number of applications			Number of patents granted		
	Foreign	Domestic	Total	Foreign	Domestic	Total
1991	870	240	1,110	779	122	901
1992	1,104	329	1,433	948	175	1,123
1993	1,341	341	1,682	1,179	155	1,334
1994	1,591	415	2,006	1,411	219	1,630
1995	1,759	322	2,081	1,532	170	1,702
1996	2,023	360	2,383	1,768	175	1,943
1997	2,647	273	2,920	2,409	161	2,570
1998	2,884	313	3,197	2,570	207	2,777
1999	2,855	347	3,202	2,609	205	2,814
2000	3,236	415	3,651	2,857	243	3,100
2001	2,788	413	3,201	2,504	246	2,750
2002	2,460	547	3,007	2,147	391	2,538
2003	2,281	506	2,787	2,077	329	2,406

Source: Industrial Property Department of the Ministry of Economy, Chile, online data, available at: <http://www.dpi.cl/shnoti.asp?>

There is a high degree of concentration in patent applications, with only four countries accounting for 65% of all applications submitted between 1991 and 2003 (Germany 9.7%, Netherlands 6%, Switzerland 6.5% and the US 42.4%)<sup>344</sup>.

Not more than 100 applications for utility models and 300 applications for industrial designs are received by the Industrial Property Department every year. While figures for utility models have increased by five times since 1991, those corresponding to industrial designs have increased about 80% but in this latter case the domestic participation has dropped from 94% to 66%<sup>345</sup>.

On trademarks the situation is quite different. More than 30,000 trademarks applications, including new applications as well as renewals<sup>346</sup>, are submitted every year to the Industrial Property Department. This figure puts Chile among the 15 top countries receiving trademark applications per year, even more than some developed countries such as Denmark (11,997 applications in 2001), Finland (10,224 applications in 2001), Italy (11,005 applications in 2001), Norway (15,083 applications in 2001) or Sweden (15,155 applications in 2001)<sup>347</sup>. The total number of trademark applications by year is shown in Figure 1.

**Figure 1. Chile: Number of trademark applications and registrations**

Source: Industrial Property Department of the Ministry of Economy, Chile, online data, available at: <http://www.dpi.cl/shnoti.asp?>

<sup>344</sup>See Industrial Property Department of the Ministry of Economy, Chile, online data, at: <http://www.dpi.cl/shnoti.asp?>

<sup>345</sup>Idem

<sup>346</sup>About one third of the total number of applications represents renewal and two thirds represent new trademark applications. Almost 70%, out of the total number of trademark applications, corre-

sponds to domestic applicants

<sup>347</sup>See WIPO statistics available at: <http://www.wipo.int/ipstats/en/index.html>

# Annex B: Intellectual Property Treaties to which Chile is Party or shall become a Party due to recent free trade agreements

TREATY/AGREEMENT to be applied/acceded	EU	EFTA	US	EU(1)	EFTA(1)	US(1)
TRIPS Agreement	A	A	B(1)		01.01.2009	
Berne Convention	A	A				
Paris Convention	A	A				
Geneva Convention	B(1)	C		01.01.2009		
Rome Convention	A	A				
UPOV 1978	A*	B(1)*			01.01.2007	
UPOV 1991	A*	B(1)*			01.01.2007	01.01.2009
Patent Cooperation Treaty	B(1)	B(1)	B(1)	01.01.2007	01.01.2007	01.01.2007
Brussels Convention			B(1)			01.01.2009
Madrid Protocol	C	C	C			
Madrid Agreement	C					
Budapest Agreement	B(1)	B(1)		01.01.2009	01.01.2009	
Trade Mark Law Treaty	B(1)		B(1)	01.01.2009		01.01.2009
WCT	B(1)	B(1)		01.01.2007	01.01.2007	
WPPT	B(1)	B(1)		01.01.2007	01.01.2007	
The Hague Convention		C	C			
PLT			C			
Nice Agreement	B(1)	B(1)		01.01.2007	01.01.2007	
Strasbourg Agreement	B(1)			01.01.2007		
Locarno Agreement	B(1)			01.01.2009		
Vienna Agreement	C					
Joint Recommendation on well known marks				C		

A Reaffirm their obligations under these treaties  
 B Ratification or accession

C Best endeavour to become a Party of that treaty.

\* One or the other treaty  
 (1) A time frame to become Party to that treaty

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