TRIPS: Licensing Challenge

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Quid pro quo *for intellectual protection is making technology available; LES members must help balance*

Most people engaged in intellectual property matters when asked what TRIPS is about, will reply harmonization of intellectual property laws and their enforcement. They may then say that they have considerable reservations as to whether TRIPS will work by reason of the various compromises that were reached. An example is the allocation of resources between the enforcement of intellectual property rights and the general law enforcement in member countries.

If members of our own Society were to be queried on TRIPS, the vast majority would give such an answer. Few would acknowledge or be aware that TRIPS has major implications for the licensing profession worldwide and poses a major challenge for us in LES. Part of the reason for this must be that most people reading the Agreement usually ignore the first part, which comprises the general provisions and basic principles. There are two statements in this of vital interest to us. They are of such importance that they are reproduced below.

ARTICLE 7

Objectives

The protection and enforcement of intellectual property rights should contribute to the promotion of technology innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.

ARTICLE 8

Principles

2. 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.

A factor that affects the licensing business generally is the rapidly increasing shift in the share of wealth from the OECD countries and developed nations to the developing nations. It is estimated that in 1990 the OECD countries accounted for 54% of the world GDP and that by the year 2010 they will only account for 38%. Such a shift in GDP is of great significance for the licensing profession.

Similarly, the compulsory licensing provisions in the TRIPS Agreement have not received enough attention.

INCREASED IPR PROTECTION

It is important to consider carefully the stated objectives of TRIPS, namely, that the increased protection and enforcement of IPR *should* lead to technology transfer with consequent enhancement of the social and economic welfare of all involved. While more effective IPR protection will assist the developed nations, the benefits for other nations are less clear. One question the licensing profession has never answered is the role intellectual property plays in technology transfer, investment flows and industrial development generally. We like to believe that it plays a pivotal role, but it is highly questionable as to whether we have any concrete proof of this. In particular, what benefits are available to the smaller nations of the world and those less developed? Is the international protection of intellectual property a good thing for them, and will it encourage technology transfer and licensing generally?

THE CHALLENGE OF TRIPS

It is almost impossible to overemphasize the challenge to the licensing profession in general. Too much of the discussion on TRIPS has been confined to law harmonization and enforcement without fully appreciating what the realities of the agreement are. Indeed, it has been suggested that the TRIPS Agreement is concerned not so much with free trade as with fair trade. It raises the very complex issue of competition policies and intellectual property generally.

Consideration of the principles of TRIPS as laid out in Article 8.2 leads to the question: when is the use of an intellectual property right a justifiable one to obtain a reasonable economic return and when is it anticompetitive?

Part of the paradox must be the stronger the intellectual property right and the more a national of one country can have its intellectual property right protected and enforced in another country the less need there is for that national to license its technology within the particular territory. It can supply that market by way of imports and thus ensure that it can make a good return from its intellectual property right.

It is easy to take the contrary view, namely that since the intellectual property rights are heavily protected, it is easier to transfer the technology than heretofore. The

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question is will it, in practice, encourage people to engage in technology transfer?

At a government level there are certain serious implications for the developed countries, *vis-a-vis* the developing countries. Developing countries are giving up a considerable amount of freedom in relation to what they see and in many cases quite rightly see as freedom to enact measures that will enable them to develop their industry. This in many ways is why the Uruguay Round took so long to be finally concluded.

There does not appear to be any doubt that on one side of the bargain the developed nations will be assisted by the greater protection of intellectual property. Many of the developed nations are investing heavily in knowledge-based industries, and they further wish to develop these knowledge-based industries. It can be argued that the further a country is involved in knowledge-based industries by definition, the more important intellectual property and its protection is to them.

It has been stated that in some way technology transfer, and hence investment flow and industrial development, will arise in the developing or less developed nations as a result of this increased protection of intellectual property. This is a hypothesis that has not by any means been proven. It is one that we in LES wish to accept because it is one that we consider attractive.

◄ Challenge for Government ►

There is thus a major challenge for government and in particular for industry in the developed countries. Governments must ensure that industry understands that they are assuming a considerable obligation under TRIPS and encourage industry to engage in the transfer of technology. If TRIPS is to work, and if the outcome of TRIPS is further harmonization of intellectual property laws throughout the world and in general a raising of standards and levels of protection of such intellectual property, then industry in the developed countries is responsible for this. In particular, we the members of LES, are responsbile for this *quid pro quo*. If we do not perform then we will be seen as the people who have failed in the TRIPS tradeoff. It is a simple balance between intellectual property protection and technology availability. Skepticism about the effectiveness of GATT and the eventual development of the economies of developing countries by this increased intellectual property protection must not be proved right by subsequent events.

The first message to the licensing profession and in particular to the members of LES is this one: We in the licensing profession have by virtue of TRIPS acquired a serious obligation to ensure that the increased level of protection and enforcement of intellectual property rights contributes to the transfer and dissemination of technology in the developing nations or more properly, in those less well developed then ourselves.

It is also vital not to lose sight of the simple economic proposition that is embodied in the shift of wealth to these developing nations, namely, that their financial muscle will increase as that of the developed countries decreases, leaving them in a stronger position to dictate the manner in which these intellectual property rights will be exploited. A situation in which the majority of the useful intellectual property rights generated in the world are unprotectable and unenforceable in over two-thirds of the world when measured in financial terms is a serious situation to contemplate. This should concentrate our minds on the objective of TRIPS and the principles behind it.

It is important for those in the licensing profession to understand that while many of the enactments in relation to the increased protection of intellectual property rights are of considerable importance to the licensing profession, there are other enactments, particularly in relation to anticompetitive practices and licensing generally that will affect us. Throughout the TRIPS Agreement there are references to anticompetitive practices. It is important to view those statements in the light of Articles 7 and 8. There are many general statements to this effect; anticompetitive practices are dealt with in two areas, Compulsory Patent and IC Topography Licenses (Articles 31 and 37), and Control of Anticompetitive Practices in Contractual Licenses (Article 40).

TRADEMARK LICENSING

For trademarks, measures have been enacted that greatly facilitate the licensing of trademarks and in particular character merchandising. Under TRIPS a licensee's use of a trademark is sufficient to maintain the validity of a registration (Article 19) and there are no use restrictions placed on a trademark owner.

There is effectively a prohibition on the practice of insisting on the use of a trademark with another trademark or use in a special form. In this case it should be noted that India in particular wished to protect its practice of requiring foreign marks applied to goods produced under license to be used in conjunction with a local mark. This was bitterly opposed by the developed countries and indeed the provisions now take account of this opposition. There is also a ban on the compulsory licensing of trademarks. However, one must understand that countries can still determine the conditions on licensing and the assignment of trademarks.

Character Merchandising

Character merchandising should be much easier. For example, in Article 15.4 the nature of the goods or services to which a trademark is to be applied should in no case form an obstacle to the registration of the trademark. This gets over the situation that applied in many common law countries due to the old English prohibition of "trafficking" in trademarks. One of the obvious aims of character merchandising is the use of famous characters or names over a wide range of unrelated goods or services, in particular without an intention to use the mark on all the goods for which registration is sought at the time of application.

Compulsory Licensing

The compulsory licensing provisions are relatively favorable to the

intellectual property right holder with the overriding proviso that these more favorable conditions will not apply where the compulsory license is permitted to remedy a practice determined after judicial or administrative process to be anticompetitive. Indeed, the need to correct anticompetitive practices may be taken into account in determining the amount of remuneration in such cases. It is in situations such as this that the enforcement and dispute resolution procedures of TRIPS are so important. Members will no longer be able to make such a ruling without the ruling being subject to scrutiny under the TRIPS Agreement. If it is effective with its mixture of private and international law, TRIPS will greatly improve the rights of the intellectual property holder. At the same time, while "anticompetitive practices" are subject to a wider scrutiny than simply a local scrutiny, they are still forbidden and it is how they are interpreted in the future that is important.

Compulsory licenses for patents are dealt with under Article 31, and are relatively favorable to the holder of the intellectual property right. Among other things, Articles 31 and 37 provide:

- There must have been a refusal by the right-holder to license on reasonable terms.
- Any license is nonexclusive.
- The license must be mainly for the domestic market of the authorizing member.
- Any license is subject to termination on change of circumstances.
- There must be adequate remuneration for the IPR holder.
- Any such decision is subject to judicial review.

The above provisions apply to both patents and topographies. Such compulsory licenses for semiconductor technology can only be for public noncommercial use. Where there is a license to allow the exploitation of a second patent that cannot be exploited without infringing another, i.e. the first patent, then:

- The second invention must involve an important technical advance of considerable economic significance compared to the first invention.
- The first patentee must be entitled to a cross-license on reasonable terms.
- The license is nonassignable except on assignment of the second patent.

Anticompetitive Practices

Article 40 deals with the control of anticompetitive practices in contractual licenses and the general terms will be easily appreciated by those familiar with EC Block Exemptions. It is imnportant to appreciate that Article 40 commences with a statement that:

1. Members agree that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology."

The above statement is repeated because it again emphasizes that throughout the TRIPS Agreement there is this mission statement that the transfer and dissemination of technology must not be impeded. Further, this Article 40 lays out that a member may adopt "appropriate measures to prevent or control such practices, which may include for example exclusive grantback conditions, conditions preventing challenges to validity and coercive package licensing." The most important feature of Article 40 is this mix of international and private law referred to above. Member countries shall on request enter into consultation with another member country that "has cause to believe that an intellectual property right owner that is a national or domiciliary of the Member to which the request for consultation has been addressed is undertaking practices in violation of the requesting Member's laws and regulations." In other words, governments will now have to negotiate arising out of actions of their national companies in other states.

SUMMARY

In summary, the shift in the balance of world wealth means that the developed countries need to have strong intellectual property rights in less developed countries. TRIPS set out to do this as part of the GATT Agreement. However, it is important for the governments, industry and in particular the practitioners in licensing who hopefully are members of LES, to ensure that this *quid pro quo* for stronger and more enforceable intellectual property rights is the transfer and dissemination of technology. If we do not do this, then TRIPS will fail and those countries who agreed to abandon practices that in many instances they viewed as being of vital importance to develop their industry will in the next round be trying to regain them.

It is essential for LES to ensure that the correct balance is maintained between intellectual property right protection and technology availability. It is a major and interesting challenge that, if we take and perform correctly, will be of inestimable benefit to us all.