Canada Gets the Short End of the TRIPS Stick: Rethinking Article 70 and the Overall Applicability of TRIPS

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Introduction

Prior to the Agreement Establishing the World Trade Organization ("WTO Agreement"), the 1980s signaled a turning point for the U.S. economy, as significant competition from abroad eroded the dominance of its manufacturing industry. At the same time, increasing numbers of companies in the U.S. started to focus on developing and refining technologies, with intellectual property (IP) becoming a substantial portion of the value of these modern businesses. Together, these changes led to a transformation of the strength of U.S. industry from traditional manufacturing into one founded upon knowledge and information.

While the U.S. was undergoing these economic changes, the Uruguay Round of multilateral trade negotiations (the precursor to the WTO Agreement) was well underway. The negotiations focused on revamping the rules governing international trade and sought to extend the scope of multilateral agreements to encompass non-traditional items of trade, beyond mere trade in goods, in order to expand trade disciplines. In light of the economic pre-eminence of IP in the U.S., it is not surprising that the main proponent for the inclusion of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) during the negotiations was the U.S., the largest worldwide investor in research and development.

TRIPS essentially requires member countries to provide a minimum level of protection for IP. Today, the importance of IP to modern businesses in the U.S. continues to increase. For example, IP licensing royalties from abroad (not including sales) in 1986 totalled $8 billion, while in 1998 this value grew to $37 billion. In addition to this revenue, actual sales of protected products, including U.S. pharmaceuticals, are also becoming increasingly significant; U.S. pharmaceutical companies alone generate more than $40 billion annually from foreign

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1 Agreement Establishing the World Trade Organization, April 1994, 33 I.L.M. 1125 [WTO Agreement].
4 The Uruguay Round continued from 1986 to 1993.
5 Annex 1C of the WTO Agreement, supra note 1 at 1197 [TRIPS].
Despite protecting the commercial value of intellectual effort, the inclusion of TRIPS as part of the WTO Agreement was regarded as highly controversial. Those opposed to TRIPS were primarily developing countries that had rudimentary or nonexistent IP protection within their jurisdictions. One of the most important contentions of these countries involved the claim that IP protection would hinder access to badly needed medicines by artificially inflating prices above the marginal cost of manufacture. For example, 89% of people infected with HIV/AIDS live in countries ranked in the lowest 10% in terms of Gross National Product (GNP), making it difficult for them to afford proper medication. Rationally, it does not make sense for countries where these individuals live to protect the income of foreign drug manufacturers at the expense of their population's health.

Nevertheless, the fear of closed borders, coupled with the promise of reduced barriers to agricultural and textile products, enabled the U.S. and its supporters to eventually convince developing countries to accept TRIPS as part of the WTO Agreement. Along with the General Agreement on Tariffs and Trade (GATT) and the General Agreement on Trade in Services (GATS), TRIPS now forms the backbone of the WTO Agreement, and all Members are required to comply with its provisions. Furthermore, any disputes regarding TRIPS are subject to the Dispute Settlement Understanding (DSU) and can ultimately result in retaliation.

Apart from the increasing importance of defining the various substantive requirements that TRIPS imposes on Members, it is equally important to determine when the TRIPS provisions must be applied. Overall application is provided for by Article 70. Before the requirements of TRIPS can be applied, Article 70 must be scrutinized to determine the extent or reach of IP protection that must be incorporated. To date, the most important decision interpreting the general applicability of TRIPS is Canada – Term of Patent Protection. This paper evaluates the Appellate Body’s interpretation of Articles 70.1 and

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9 Ibid. at 473.
10 Nerozzi, supra note 3 at 618.
11 See Barton, supra note 8 in general.
12 Nerozzi, supra note 3 at 605.
13 Gerhart, supra note 2 at 370.
14 Which is incorporated by Paragraph 1(a) of the General Agreement on Tariffs and Trade 1994, in Annex 1A of the WTO Agreement, supra note 1 at 1154 [GATT].
15 Annex 1B of the WTO Agreement, supra note 1 at 1167 [GATS].
16 Understanding on Rules and Procedures Governing the Settlement of Disputes, Annex 2 of the WTO Agreement, supra note 1 at 1226 [DSU].
17 TRIPS Article 64. Nevertheless, European Communities – Regime for the Importation, Sale and Distribution of Bananas (Complaint by European Communities) (1999), WTO Doc. WT/DS27/ARB/ECU at 31 (Panel Report) suggests that to suspend TRIPS obligations, WIPO approval must be obtained, which is unlikely. Despite this, if a developing country fails to comply with TRIPS, sanctions against IP may not be effectual, and the DSU Article 22 allows trade sanctions against goods or services. In this case, WIPO would not have to be consulted. This is likely the prevalent situation between developing countries and developed countries. See Nerozzi, supra note 3 at 615. For instance, developing countries interpret TRIPS Article 27 as allowing for broad exceptions to patent rights, while developed countries favour narrow interpretations. By no means are the TRIPS obligations defined with certainty.
70.2, and discusses the interaction between various provisions of Article 70. It also evaluates the resultant impact of the decision on Canada. For context, the paper begins with a brief overview of the function of TRIPS in the overall scheme of the WTO Agreement.

The Role of TRIPS as Part of the WTO Agreement

Identifying the immediate effects of TRIPS is relatively straightforward. Members are required to provide minimum levels of protection to various forms of IP, as identified in the agreement. Seven categories of IP are enumerated, including the traditional categories of copyright, trademark and patent. The more complicated issue involves identifying the purpose or objective of TRIPS and the repercussions it has on international trade.

Unfortunately, there is no consensus when attempting to define the “goal” of TRIPS. Opinions vary widely: some claim that TRIPS is designed to stop piracy, while others argue that it is designed to act as an agent of growth for developing countries. Despite these disparate views, accurately defining the goal of TRIPS is essential when interpreting its provisions. It is suggested that, if the objectives of the WTO Agreement (i.e., an increase in general welfare) and the methods used to achieve these goals are kept in mind (i.e., that GATT facilitates the exchange of goods and GATS facilitates the exchange of services), the purpose of TRIPS can be seen as a method for facilitating the international exchange of knowledge. By requiring Members to implement basic levels of protection, a uniform regulatory environment is created in which knowledge (an intangible) can be bought and sold across borders in the same way as ordinary goods. The “uniqueness” of these intangibles is maintained through the implementation of legislation in each separate jurisdiction, and individuals are effectively prevented, for a limited period of time, from using the knowledge without permission. Of course, anyone is free to create “new” knowledge, for which they are afforded the same protection by the various member states. If this perspective is adopted, it is arguable that TRIPS promotes the conversion of intellectual effort into a commodity for which, depending on its usefulness, a trading price can be established. In turn, this exchange of knowledge helps increase the overall welfare of society.

However, most knowledge is not held for its own sake; it is eventually applied and becomes embodied in tangible goods. This can create tensions between the various trading regimes under the WTO Agreement. For instance, on one hand, GATT supports trade liberalization and world competition; efficiently manufacturing and selling goods is encouraged. On the other hand, TRIPS acts as a trade barrier that prevents free trade in goods that embody IP; temporary monopolies are granted that distort the free-market price of such goods. In this way, there appears to be a conflict between the operation of GATT and TRIPS.

Conceptually however, this is not the case if the underlying subject matter of each trade regime is correctly identified – recognizing that the tangible good is distinct from the IP. Once this dichotomy is sorted out, a proper application of the TRIPS provisions only concerns the IP, not the physical good. For example, TRIPS does not allow for trade restrictions on cassette tapes (i.e., tangibles), but allows for restrictions on the trade of protected music (i.e.,

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2 See Gerhart, supra note 2, in which he outlines the views of several academics. The Preamble to TRIPS is probably the source of this confusion, as it is largely incoherent.

3 See the Preamble to the WTO Agreement, supra note 1 at 1144.

8 Essentially, knowledge is traded across borders, while the protection of the knowledge is territorial. This is analogous to property rights in tangibles. Objects move across borders, while rights are territorially based.
intangibles). When the various layers of "commodities" are identified, the obligations under GATT and TRIPS can be paired with their distinct subject matters, and no conflict results. Practically speaking however, since in many situations the IP is inextricably linked to the tangible good, IP protection can act as an effective trade barrier to goods that embody protected subject matter. Still, it remains important to differentiate between the subject matter that is addressed respectively by GATT and TRIPS, to maintain the inter-operability of the two trade regimes.

It is arguable that a more fundamental problem arises internally from the design of the TRIPS regime itself. TRIPS requires Members to grant temporary monopolies, which inevitably cause trade distortions in the IP marketplace. These monopolies eliminate competition between "identical" ideas, even if they are developed independently. It is therefore arguable, on a conceptual level, that the TRIPS monopolies do not promote the efficient exchange of knowledge and are contrary to trade liberalization. Nevertheless, it is also arguable that over the long term, the increased innovation that IP protection fosters can actually encourage competition. Granting monopoly rights to reward and protect the development of socially useful ideas seems to be the only plausible way to create an incentive for creators.

In summary, it can be argued that the goal of TRIPS is to create a uniform regulatory environment that facilitates the exchange of knowledge. This environment is created by requiring Members to provide minimum levels of protection within their respective jurisdictions. The interaction of TRIPS with the other trade disciplines of the WTO Agreement, such as GATT, may create tensions, but it is suggested that if each regime is properly applied to its respective subject matter, conceptually no problems arise. However, the temporary grant of monopolies, which is internal to TRIPS, can result in distortions in the IP marketplace. Nonetheless, monopolies are needed due to the inherent limitations involving the protection of intangibles and are generally consistent with the goals of the WTO Agreement.

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23 Strictly speaking, TRIPS requires domestic legislation to provide for a minimum level of IP protection. The restrictions on trade only arise indirectly through domestic legislation, that can allow for border control concerning unlicensed IP, as well as control over unlicensed IP within the country.

24 However, note that the various IP legislation can limit the use of IP rights for such purposes. For instance, patent legislation can provide for mandatory licensing.

25 This is presently an area of debate surrounding pure e-products, such as e-books. Some suggest that GATT is applicable to e-products since they can be likened to physical products, while others suggest that only GATS applies, since the e-product is likened to a pure service. Both arguments, surprisingly, ignore the subject matter and applicability of TRIPS. See Stewart A. Baker et al., "E-Products and the WTO" (2001) 35 Int'l Lawyer 5.

26 Monopolies generally always cause trade distortions and market inefficiencies. Theoretically, this happens because a rational monopolist maximizes profit by producing an output quantity where marginal revenue equals marginal cost. However, in a monopoly situation, as quantities increase, the marginal revenue decreases faster than demand, and the point of maximum profit for the monopolist occurs when less product (and therefore higher price) is produced, when compared with the perfectly competitive situation. See Ernest Gellhorn & William E. Kovacic, Antitrust Law and Economics in a Nutshell, 4th ed. (St. Paul, MN: West Publishing Co., 1994) at 61-66.

27 Often times, technology develops simultaneously in different places, and it seems unfair to grant a temporary monopoly to the first person who succeeds, if others are very close behind.


29 This is obviously due to the ease of duplication of IP. Interestingly, technological methods are being developed that allow for individual self-help in preventing the use of IP. This is especially true in the field of software, where encryption technologies can render programs useless unless the proper decryption key is obtained. Perhaps in the near future, monopolies will no longer be needed to protect some forms of IP.
The Decision: Canada – Term of Patent Protection

Throughout the 1980s, patents registered in Canada were given a 17-year term of protection, counted from the date of their grant. This was also incorporated in the North American Free Trade Agreement (NAFTA), which allows parties to choose between offering a 17-year term of protection counted from the date of grant, or a 20-year term of protection counted from the date of filing. To ensure overall conformity with the agreement, Canada was required to make some changes to its legislation before January 1, 1994. When implementing these changes, the federal government also chose to alter the term of patent protection to 20 years from the date of filing. The amendments left unchanged the term of protection for patents filed before October 1, 1989, but patents filed on or after that date were given a 20-year term measured from the date of filing. These different types of patents were respectively referred to as “Old Act patents” and “New Act patents.”

Approximately two years after the NAFTA amendments, on January 1, 1996, TRIPS became applicable to Canada. It seemed that Canada’s legislation on the term of patent protection was in conformity with the 20-year term required by Article 33 of TRIPS. However, in 1999, the U.S. challenged the Canadian regime and suggested that TRIPS required all patents existing in Canada to receive a minimum 20-year term of protection, counted from the date of filing. Interestingly, this only applied to approximately 40% of the Old Act patents; the term of protection for the other 60% was greater than the minimal requirements of TRIPS. Official consultations through the WTO commenced in 1999 and a Panel was established to hear the dispute. The Panel decided in favour of the U.S., finding that the Canadian legislation was not in conformity with the obligations required by TRIPS. Canada appealed. The Appellate Body heard the dispute and rendered its decision on September 18, 2000.

Analysis of the Appellate Body’s Reasoning

The Appellate Body started with the presumption that Article 70 determines the overall applicability of the TRIPS provisions. It purported to take a contextual approach when interpreting the various provisions, by identifying the purpose of the Article from its title: “Protection of Existing Subject Matter.” Unfortunately, this title merely outlines what the provisions address, not whether particular subject matter will or will not be protected. The meaning of the title

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31 NAFTA gives the choice of either method. See c.17, Art.1709:12. Interestingly, the U.S. kept its term of protection as 17 years from the date of grant.

32 See NAFTA, supra note 30 at c.22, Art. 2203.

33 It is possible that this was done in foresight of the requirements that were eventually imposed by TRIPS, which was concurrently being negotiated. The Final Act was agreed to on April 15, 1994, which was after the amendments. Nevertheless, TRIPS negotiations were well underway.


35 Ibid., s. 44.

36 Can.-Patent, supra note 19 at para. 5. To be more precise, the statistic refers to patents in existence on October 1, 1996 rather than those in existence on January 1, 1996.


39 Can.-Patent, supra note 19.

40 Ibid. at para. 49.

41 See the title of Article 70.
is equivocal. Nevertheless, the Appellate Body decided that the title confirmed the focus of Article 70 is to bring within the scope of TRIPS existing subject matter, which included Old Act patents.

Throughout the decision, surprisingly, the interactions of the various provisions of Article 70 were not addressed. The Appellate Body focused on the relationship between the first two paragraphs, and did not mention the interactions of Articles 70.6 and 70.7, despite arguments by both Canada and the United States. Since the Appellate Body’s analysis was limited in scope, it is difficult to consider the determination as presenting a contextual approach to the whole of Article 70.

a) Analysis of Article 70.1

The Appellate Body decided that Article 70.1 was a general provision that covered “acts which occurred” before the application of TRIPS, and it excepted them from obligations required by the agreement. The definition of “acts” included both public and private acts, such as the grant of a patent (public) or the filing of a patent (private). A further distinction was drawn between acts and rights created by acts. The Appellate Body mentioned that it was of fundamental importance to distinguish between the act of granting a patent and the rights that resulted from the grant.

Immediately after distinguishing between acts and rights, the Appellate Body conflated the two by suggesting that acts were not complete if rights derived from the acts still existed. This reasoning was applied to patent grants, and it was concluded that if patent rights still existed, the act of granting was not complete and the Article 70.1 exception was not triggered, since it only applied to “acts which occurred.” Although not clearly articulated by the Appellate Body, this reasoning seems to be analogous to a contractual agreement, in that a contract is a continuing act until it comes to an end.

Of course, Canada argued that the act of granting a patent was completed when the patent was issued, and that the exception under Article 70.1 was applicable. This argument also seems to be analogous to a contractual agreement; the act of entering into a contract is discrete and complete, despite the ongoing contract. However, the Appellate Body did not like the sweeping consequences that this would have had for existing patents. If Canada’s interpretation was adopted, all of the existing Old Act patents would be covered by the Article 70.1 exception, and none of the TRIPS obligations would be applicable. The Appellate Body simply rejected this in favour of its own interpretation.

Unfortunately, the Appellate Body’s reasoning effectively nullifies the application of Article 70.1. Article 70.1 creates exceptions to obligations for completed acts, and must be read in conjunction with the other provisions of Article 70. For instance, Article 70.3 precludes obligations regarding all subject matter that has fallen into the public domain (i.e., not protected) when TRIPS becomes applicable. This effectively covers actions that eliminate protection, such as expropriation or “completed acts” such as expired terms of protection, as long as they occur before the application of TRIPS. If the

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4For instance, a provision stating that existing Old Act patents are not protected under TRIPS would be consistent with the title.
4 Can.-Patent, supra note 19 at paras. 58 and 60.
4 Ibid. at para. 15.
4 Ibid. at para. 36.
4 Ibid. at para. 54.
4 Ibid. at para. 56.
4 Ibid. at paras. 59 and 60.
4 As per the Appellate Body’s previous reasoning, ibid. at para. 58.
4 Ibid. at para. 13.
5 Ibid. at para. 59.
Appellate Body’s interpretation of Article 70.1 is accepted, it becomes increasingly difficult to find an act that is excepted by Article 70.1, yet not by Article 70.3. Basically, this leaves either Article 70.1 or Article 70.3 redundant.

b) Analysis of Article 70.2

With the Appellate Body’s interpretation of the operability of the Article 70.1 exception, the outcome of the analysis of Article 70.2 was already predetermined. Article 70.2 gives rise to obligations for all existing and protected subject matter at the date of application of TRIPS, unless otherwise provided for by other Articles. Since the Old Act patents were in existence and protected, and the exception of Article 70.1 did not apply, the full ambit of TRIPS obligations were applicable.

It is interesting to note that, at this point of the analysis, the presumption against retroactivity was considered, rather than during the discussion of the Article 70.1 exception.\(^5\) Canada argued that the obligations under Article 70.2 would be applied retroactively if exceptions were not allowed for the Old Act patents. This led the Appellate Body to consider Article 28 of the Vienna Convention on the Law of Treaties.\(^6\) Article 28 provides that treaty provisions do not bind a party in relation to (a) acts which took place, or (b) facts which took place, or (c) situations which ceased to exist before the date of the entry into force of the treaty with respect to that party.\(^7\) It is suggested the Appellate Body erred when it concluded that this provision should be interpreted to mean that if a situation did not cease to exist (i.e., was ongoing), then the treaty provisions should apply.\(^8\) However, the Appellate Body may have relied on other unarticulated factors to reach this conclusion,\(^9\) but surprisingly the disjunctive “or” between the conditions in Article 28 was also ignored. According to Article 28, even if a continuing situation exists that may give rise to obligations, if an act took place and was completed, then obligations should not arise. This returns us to Canada’s argument that the act of issuing a grant is discrete and separate from the ongoing obligations regarding the grant. Even if the grant for existing patents was ongoing, the issuance of the grant for Old Act patents was concluded before the application of TRIPS and no obligations should arise.

The Appellate Body’s interpretation also presents difficulties interacting with Article 70.7. Article 70.7 allows for pending applications of registrable IP, including patents, to be amended to allow for any enhanced protection as a result of the application of TRIPS. This implies that without Article 70.7, pending patents do not receive any benefits arising from TRIPS. Despite this implication, the Appellate Body’s reasoning would suggest that pending patents would not fall under the Article 70.1 exception, since they would be considered ongoing (i.e., acts which are not completed). Hence, pending patents would be included under Article 70.2, which requires the TRIPS obligations to be applied to subject matter that “comes subsequently to meet the criteria for protection.” If the Appellate Body’s interpretation is adopted, Article 70.7 also becomes redundant.

c) Understanding the Decision

The problems with the Appellate Body’s interpretations would have become apparent if the interaction of the Article 70 provisions was considered. As mentioned, both the U.S. and Canada argued that

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\(^6\) See Can.-Patent, supra note 19 at paras. 70-74.
\(^7\) Generally in the form: “if A or B or C, then No Application.”
\(^8\) Generally in the form: Since “if C, then No Application,” then it is reasonable to conclude “if Not C, then Application.” See Can.-Patent, supra note 19 at para. 72.
\(^9\) For instance, despite the logical flaw, it may be reasonable to assume that treaty provisions apply to ongoing actions.
various provisions would be nullified if certain interpretations were adopted, so it is surprising that only Articles 70.1 and 70.2 were addressed. As well, as part of the contextual approach, prior decisions have required that any adopted interpretation must give meaning and effect to all terms of a treaty.\footnote{\textit{See Japan-\textdaggertext{Taxes on Alcoholic Beverages (Appeal by Japan)} (1996), WTO Doc. WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R at 11 (Appellate Body Report).}}

The narrow approach taken by the Appellate Body is largely inexplicable. Perhaps on a political level, an important factor in the decision was the relative importance of TRIPS to technology-producing countries, such as the United States. For instance, the U.S. has been particularly vigilant in monitoring international compliance with the TRIPS provisions because of the importance of IP to its economy. Since the implementation of the WTO Agreement, the U.S. has been responsible for requesting consultations involving TRIPS in approximately 65\% of the cases.\footnote{\textit{This information was obtained by searching the WTO website: WTO <http://www.wto.org>. The U.S. accounts for 15 of the 23 requests for consultations.}} Similarly, the U.S. accounts for approximately 64\% of the requests for establishing Panels that involve TRIPS disputes.\footnote{Ibid. The U.S. accounts for seven of the 11 requests for Panels.} If the Appellate Body adopted Canada's interpretation and found that all registrable IP protected before the adoption of TRIPS was not included, the U.S. and other technology-producing countries would have been placed in an untenable economic position on a global level. Repercussions of the decision would extend well beyond the mere dispute at hand. Realistically, the Appellate Body's decision was probably well considered, as it avoided the political fallout that would have ensued.

A Suggested Interpretation of the Article 70 Provisions

A contextual interpretive approach would have considered the interaction of all the Article 70 provisions. As well, special attention should have been given to the presumption against the retroactive effect of treaties, a principle enshrined in Article 28 of the Vienna Convention on the Law of Treaties. The following is a suggested interpretation that takes into account the interactions of the various paragraphs.

Article 70.1 should be interpreted as an articulation of the non-retroactivity principle. It gives a general exception to all obligations arising from prior acts, which includes the grant of patents or the creation of works subject to copyright. It should be seen as a sweeping rule that allows the prior affairs of Members to be excepted from the obligations arising from TRIPS.

Despite the general non-retroactivity rule regarding actions that is articulated in Article 70.1, Article 70.2 addresses existing subject matter at the time TRIPS becomes applicable. \textit{Subject to any exceptions}, existing subject matter only gives rise to obligations if it is protected or if it subsequently meets the criteria for protection.\footnote{See the first sentence of Article 70.2.} Since prior actions are inextricably linked to existing subject matter, the general exception of Article 70.1 would seem to preclude obligations regarding \textit{all} subject matter that has ties to the past.

Nonetheless, if a distinction is drawn between IP that requires registration (e.g., patents) and IP that does not require registration (e.g., works covered by copyright), a different conclusion can be drawn. Certain subject matter can come to be protected \textit{independently} from acts prior to the application of TRIPS. This includes all IP that does not require registration, such as works protected by copyright. As long as a work is in existence (i.e., existing subject matter), it becomes protected at the date TRIPS comes into force, assuming a Member's legislation.
is in conformity. This protection is independent of any prior acts. Hence, any prior acts that fall under the Article 70.1 exception are irrelevant, since independent obligations arise the moment TRIPS becomes applicable. Even though there is a connection between prior acts and presently existing subject matter, the fact that subject matter exists is enough to afford protection.

When this concept is applied to IP that requires registration, a different result ensues. As discussed, registrable IP is linked to the past and ought to be covered by the Article 70.1 exception. On the date that TRIPS becomes applicable, the criteria under Article 70.2 that give rise to obligations do not need to be considered, since the exception is in place. For instance, existing Old Act patents were undeniably protected subject matter at the time TRIPS came into force in Canada, but they are excepted by Article 70.1 from requiring TRIPS obligations.

Unfortunately, IP that requires registration must meet certain qualifications to be granted protection. In the case of patents, independent protection cannot be obtained, since the patent has already been publicly disclosed and the subject matter cannot be newly protected. This is an inherent limitation imposed by the different requirements applicable to most registrable IP.

While the distinction between registrable and non-registrable IP is somewhat finessed, this distinction is hinted at within Article 70.2 itself. The last sentence explicitly deals with copyright, a form of non-registrable IP. From this, Article 70.2 must apply to copyright and, arguably, to other non-registrable IP. On the other hand, Article 70.7 specifically deals with registrable IP and extends protection afforded by TRIPS to circumstances where applications for registration are pending. Article 70.7 can be seen as an explicit exception to the non-retroactivity principle articulated in Article 70.1. For Article 70.7 to have effect, registrable IP that is connected to prior acts cannot otherwise be included by Article 70.2. It seems that this distinction between registrable and non-registrable IP must be incorporated by the first sentence of Article 70.2, so that meaning can be given to the various provisions of Article 70.

Outcome of the Decision

The Dispute Settlement Body adopted the decision of the Appellate Body on October 12, 2000 and recommended that Canada bring its legislation into conformity. Canada agreed to comply, but insisted that 14 months would be needed because of the extensive amendments that would be required. The U.S. disagreed, as it felt that Canada was stalling, and made a request for arbitration on December 20, 2000. After hearing arguments from both Members, the arbitrator decided that Canada was required to comply within 10 months from the date the decision was adopted by the Dispute Settlement Body. With one month to spare, Canada enacted new legislation that came into force on July 12, 2001.

Interestingly, the new legislation only applies to Old Act patents that were existing on the date it came into force. On October 1, 1996, there were approximately 93,937 Old Act patents that expired before the minimal

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*Also note that Article 70.3 only creates an exception for subject matter that has fallen into the public domain, and not for subject matter that is presently protected or (arguably) subject matter that was never protected.


term required by TRIPS,65 while by July 12, 2001, the government of Canada claims that only 45,000 Old Act patents remained which were affected by the decision.66 From these statistics, an estimated 850 Old Act patents that would have gained added protection expired each month that Canada delayed.67 The government of Canada also claims that only 25 commercially significant pharmaceutical patents were extended, with an average extension period of six months.68 Other than patents concerning pharmaceutical products, most patents are apparently valueless toward the end of their term of protection.69

The Canadian government, possibly to minimize public concern, also suggested that the loss of savings that will result from the extension is insignificant; less than one-tenth of 1% of drug sales over the eight-year period until 2009.70 This statement is misleading. Of greater importance than the loss of savings to consumers is the outflow of Canadian dollars into the economy of the United States. While a net loss of savings can be estimated at $125 million,71 a rough estimate of the outflow of Canadian dollars due to the extension is $400 million.72 For instance, the 11-month patent extension of the cholesterol-lowering drug Pravachol®, which is owned by an American company,73 has been estimated to be worth $110 million in sales.74 By any standard, the amount of lost savings and outflow of dollars are significant and cast a perspective over the rationale of the dispute. Perhaps Canada’s appeal and length of time to comply were well considered.

In any case, the entire dispute, from the initial application to the actual implementation of domestic legislation, was resolved within two years.75 When compared to the length of time it usually takes to resolve a simple litigation matter in either the U.S. or Canadian courts, this is a testament to the astounding efficiency of the WTO dispute settlement process.76

Conclusion

The Appellate Body’s determination of the overall applicability of TRIPS leaves some uncertainty about the expression of several Article 70 provisions. Nevertheless, since a comprehensive examination of Article 70 was not conducted, the possibility exists

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65 Can.-Patent, supra note 19 at para. 5.
66 Strategis, supra note 64.
67 The calculation: (93,937 - 45,000) / 57.5 months = 851
68 Strategis, supra note 64.
69 Ibid.
70 Ibid.
71 This information was obtained from the “Patented Medicine Prices Review Board, Annual Report 2000” at 16, online: Petented Medicine Prices Review Board <http://www.pmprb-cepmb.gc.ca/english/pdf/ar2000/ar00e6.pdf>, which indicates that in 2000, sales of drugs totalled $10 billion. As well, over the past decade sales have increased annually by just over 10% on average. From this, the total drug sales over the eight-year period until 2009 can be estimated at $125.7 billion, and “one-tenth of one percent” totals $125 million.
72 According to a conversation on April 11, 2002 with Mr. Eric Dagenais from Industry Canada, who helped compile the website statistics, the maximum amount of lost savings was calculated under the assumption that generics enter the market immediately, capture the full market share, and cost consumers 30% less. Assuming that all of the patents are U.S.-owned and all funds flow out of Canada, from the estimate of lost savings ($125 million), it can be extrapolated that the total cost to Canada was (125/30%) = $416 million. This is a rough figure that does not factor-in income taxes, payments to Canadian employees, etc., which all function to keep money inside of Canada.
73 Bristol-Myers Squibb Company.
75 The Request for a Panel was filed on July 15, 1999 and Canada implemented legislation on July 12, 2001.
76 In Canada, a regular litigation matter can run several years, with an appeal increasing this time to half a decade. Appealing up to the Supreme Court of Canada can take a full decade.
that all of the provisions may indeed find expression. The issue remains open.

Despite this possibility, criticisms will persist over how the interpretation was arrived at and what factors were considered. As time progresses, however, an alternative interpretation of Article 70 may lose importance. Assuming that most developed countries are presently Members, within 20 years only "New Act"-type patents will exist. As developing countries eventually become Members, it is unlikely that many will have pre-existing patent or IP registration regimes, so a similar argument will not be rekindled. However, at the end of the day, it remains that Canada will continue to be affected by the decision for the next eight years.

3. There shall be no obligation to restore protection to subject matter which on the date of application of this Agreement for the Member in question has fallen into the public domain.

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6. Members shall not be required to apply Article 31, or the requirement in paragraph 1 of Article 27 that patent rights shall be enjoyable without discrimination as to the field of technology, to use without the authorization of the right holder where authorization for such use was granted by the government before the date this Agreement became known.

7. In the case of intellectual property rights for which protection is conditional upon registration, applications for protection which are pending on the date of application of this Agreement for the Member in question shall be permitted to be amended to claim any enhanced protection provided under the provisions of this Agreement. Such amendments shall not include new matter.

Appendix

TRIPS Article 70
Protection of Existing Subject Matter
1. This Agreement does not give rise to obligations in respect of acts which occurred before the date of application of the Agreement for the Member in question.

2. Except as otherwise provided for in this Agreement, this Agreement gives rise to obligations in respect of all subject matter existing at the date of application of this Agreement for the Member in question, and which is protected in that Member on the said date, or which meets or comes subsequently to meet the criteria for protection under the terms of this Agreement. In respect of this paragraph and paragraphs 3 and 4, copyright obligations with respect to existing works shall be solely determined under Article 18 of the Berne Convention (1971), and obligations with respect to the rights of producers of phonograms and performers in existing phonograms shall be determined solely under Article 18 of the Berne Convention (1971) as made applicable under paragraph 6 of Article 14 of this Agreement.