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# EU Obligation to the TRIPS Agreement: EU Microsoft Decision

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## Abstract

*In Microsoft v. Commission, Microsoft was ordered by the European Court of First Instance (CFI) to license interface information to its competitors on reasonable terms and to supply a fully functioning version of Windows Personal Computer Operating System without Windows Media Player. Microsoft claimed that the remedies infringed the minimum standards of IP protection provided by the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). However, the CFI refused to examine the TRIPS provisions, on the basis that international agreements do not prevail over primary Community law, and in any case, the TRIPS agreement permits members to restrain anti-competitive abuse of IP rights. This article examines the issues that arise from this position: first, is the Microsoft decision TRIPS compliant? Secondly, to what extent is the EU bound to its obligations under the TRIPS Agreement? The article highlights the lack of a clear-cut hierarchy of norms and illustrates how EU law is placed within a multi-layered governance structure involving national law and international law. The article finds that the EU does not engage in consistent interpretation or application of the TRIPS provisions.*

## 1 Introduction

Article 102 of the Treaty on Functioning of the European Union (TFEU) prohibits abuse of a dominant position by under-

takings within the European common market in so far as it may affect trade between the Member States.<sup>1</sup> In *Microsoft v. Commission*, the European Court of First Instance (CFI) found Microsoft to have leveraged and, thus, abused its dominance in the primary Windows Personal Computer Operating Systems (PCOS) market by refusing to continue to supply to its competitors 'interoperability

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<sup>1</sup> Treaty on the Functioning of the European Union, OJ (2008) C 115/47, Title VII, Art. 102.

information' which would allow rival Work Group Server Operating Systems in the secondary market to communicate with Windows PCOS and servers.<sup>2</sup> Furthermore, Microsoft was found to be engaging in an abusive 'tying' arrangement by making the sale of Windows PCOS conditional upon the simultaneous acquisition of Windows Media Player (WMP), thus placing competitors in the latter market at a distinct disadvantage. As a remedy for abuse of its dominant position in the PCOS market, Microsoft was required to license the complete and accurate interface information on reasonable terms, such that all its competitors' Work Group Servers could communicate with Windows, thus allowing them to compete viably with Microsoft's Work Group Servers. In addition, Microsoft was required to place on the market a fully functioning version of Windows PCOS without attaching WMP in order to retain competition in that market.

Microsoft argued that compulsorily licensing its interface technologies, which were protected by IP rights, would reduce not only its own incentive to invest in R&D, but also that of its competitors, who would simply wait for technology to be provided to them by dominant firms.<sup>3</sup> Microsoft further claimed that the remedies infringed the minimum standards of IP protection provided by the international agreement on TRIPS, signed by both the European Community and

the Member States.<sup>4</sup> However, the CFI refused to examine the TRIPS provisions, on the basis that international agreements do not prevail over primary Community law, and in any case the TRIPS Agreement enabled Member States to make provisions to restrain anti-competitive abuse of IP rights.<sup>5</sup> This article examines the issues which arise from this position: first, is the *Microsoft* decision TRIPS compliant? Secondly, to what extent is the EU bound to its obligations under the TRIPS Agreement?

The European Commission Decision on Microsoft in 2004 had stated that the remedies were not inconsistent with the TRIPS Agreement which allowed exceptions to and limitations on the exclusive rights in addition to recognizing the need to prevent anti-competitive abuse of IP rights.<sup>6</sup> The article examines this position in its first section by analysing individual TRIPS provisions against the *Microsoft* ruling to determine whether the latter can be held to be compliant. Furthermore, the section considers whether the international law doctrine of consistent interpretation is being applied by the CFI and the concurrent effect that it has on IP rights in Europe. The second section analyses the triangular relationship between international law, EU law, and national law. In this regard, it first examines the issue of EU competence to deal with all aspects of IP rights while engaging in

<sup>2</sup> Case T-01/04, *Microsoft Corp. v. EC*, [2006] ECR II-1491 (hereinafter CFI Judgment); EC Decision of 24 Mar. 2004, *Microsoft Corp.*, COMP/C-3/37.792, OJ (2004) L 32/23 (hereinafter Contested Decision).

<sup>3</sup> CFI Judgment, *supra* note 2, at paras 115, 267–269, 274.

<sup>4</sup> The TRIPS Agreement, available at: [http://www.wto.org/english/docs\\_e/legal\\_e/legal\\_e.htm](http://www.wto.org/english/docs_e/legal_e/legal_e.htm), was annexed to the WTO Agreement and its ratification was a compulsory requirement for WTO membership which opened up access to world markets.

<sup>5</sup> CFI Judgment, *supra* note 2, at paras 798, 801, 802, 1189, and 1190.

<sup>6</sup> CFI Judgment, *supra* note 2, at para. 1182.

treaty-making at the international level. It then examines and highlights the lack of a clear-cut hierarchy of norms and illustrates how EU law is placed within a multi-layered governance structure involving national law and international law. The lack of direct effect and the presence of direct applicability are thereby examined to see how the EU Courts treat international treaties within their domestic legal order. Consequently, the article argues that the EU does not engage in consistent interpretation or application of the TRIPS provisions, and such disregard of its obligations to the TRIPS Agreement undermines the image of EU as a promoter of IP rights.<sup>7</sup>

## 2 The Facts and Implications of *Microsoft*

The European Commission has always been clear that, in general, undertakings are under no duty to deal with or supply goods or services to competitors.<sup>8</sup> On the other hand, the Courts have held that being a dominant firm brings with it a 'special responsibility' to ensure that effective competition in the market is not eliminated.<sup>9</sup> Therefore, dominant firms

may be forced to supply to competitors, if access to such goods and services is considered necessary for the competitors to compete effectively in the market. Tensions arise when the refusal relates to goods or services protected by IP rights. This is because the very essence of IP law rests on the owner's entitlement to prevent third parties from violating his right of exclusive use of the property such that he can capitalize on his invention by taking advantage of the resulting monopolistic market position.

EU competition authorities have made it clear that the presence of IP rights does not bring with it a presumption that the right-holder is dominant. Early competition cases elucidated the point that the IP owner's right to prevent competitors from producing products incorporating its IP constitutes the *very subject-matter* of the exclusive right.<sup>10</sup> It was further clarified that a refusal to license despite an offer of a reasonable royalty would not constitute abuse of a dominant position within the meaning of Article 102 TFEU.<sup>11</sup> However, the argument that IP rights provide immunity from the application of competition rules was rejected in *Magill*, where refusal to license copyright resulted in the right-holder reserving to itself a secondary downstream market where it was not a supplier.<sup>12</sup> In *Magill*, the exceptional circumstances which the Courts took into account to

<sup>7</sup> See DG Trade, 'Strategy for the Enforcement of Intellectual Property Rights in Third Countries', OJ (2004) C 129/03; DG Trade, 'Joint Communication from the EC, US, Japan and Switzerland to the TRIPS Council on IPR Enforcement, [2006] WTP TRIPS Council Doc IP/C/W/485.

<sup>8</sup> Communication from the Commission, 'Guidance on the Commission's Enforcement Priorities in Applying Article 82 EC Treaty to Abusive Exclusionary Conduct by Dominant Undertakings', OJ (2009) C 45/7, at para. 74.

<sup>9</sup> CFI Judgment, *supra* note 2, at paras 229, 389–390, 392; Case 322/81, *Michelin* [1983] ECR 3461, at para. 57; Case T–228/97, *Irish Sugar* [1999] ECR II–2969, at para. 112.

<sup>10</sup> Case 238/87, *AB Volvo v. Erik Veng (UK) Ltd.* [1988] ECR 6211, at para. 8.

<sup>11</sup> *Ibid.*

<sup>12</sup> *Magill TV Guide/ITP, BBC and RTE*, 89/205/EEC, OJ (1989) L78/43, upheld in Joined Cases C–76, 77 and 91/89 R, *RTE and ITP v. EC* [1989] ECR I–1141, upheld in Joined Cases C–241 and 242/91 P, *RTE and ITP v. EC* [1995] ECR I–743 (hereinafter *Magill*).

order compulsory licensing were that the refusal concerned a product the supply of which was indispensable to the secondary market and that the right-holders prevented the emergence of a new product which was not being offered to the public by the right-holder even though there was specific, constant, and regular potential demand for the same.<sup>13</sup>

In the controversial *IMS Health* case, the criterion relating to the emergence of a new product was extended by the ECJ to include products that may compete as substitutes with the right-holder's IP-protected products in the secondary market.<sup>14</sup> In *Microsoft*, as the interoperability information was found to be indispensable for competitors to remain viably on the market, there was no objective justification for Microsoft's refusal to supply, as it generated a risk that 'effective' competition in the secondary market would be eliminated.<sup>15</sup> The 'new product' criterion was held to be satisfied on the basis that Microsoft's conduct had the potential to limit technical development in the secondary product market in which Microsoft was already a supplier.<sup>16</sup> This meant that the 'new product' criterion was further stretched, such that IP rights could be compulsorily licensed in order to

produce products which were similar to the ones already provided in the market by Microsoft.<sup>17</sup> From this perspective, Microsoft can have a severe impact on dominant firms, especially when relying on IP rights obtained through significant investment in R&D.

### 3 Compliance with TRIPS Provisions

The TRIPS Agreement aims to establish rules to promote effective and adequate protection of IP rights and ensures that measures to enforce IP rights do not themselves become barriers to legitimate trade.<sup>18</sup> Microsoft claimed that the remedies ordered against it infringed the minimum standards of IP protection provided by the international agreement on TRIPS, of which both the EU and its Member States are signatories.<sup>19</sup> Microsoft argued that compulsory licensing of IP rights embedded in its interface information breached Article 13 TRIPS Agreement.<sup>20</sup> Article 13 TRIPS states that the limitations on and exceptions to exclusive rights:

- (a) are to be confined to certain special cases,
- (b) should not conflict with normal exploitation of the work, and
- (c) should not unreasonably prejudice the legitimate interests of the right holder.

<sup>13</sup> *Ibid.*, at paras 50, 52.

<sup>14</sup> Case C-418/01, *IMS Health v. NDC Health* [2004] ECR I-5039, at para 38; *Magill* *supra* note 12, at paras 50–56; Davison, 'Report of Roundtable Event – the Stockholm Network & Managing IP' (Oct. 2007) 'CFI's Microsoft Ruling May Threaten R&D in Europe', available at: <http://www.managingip.com>; see Subramanian, 'The Microsoft Decision: A Setback to Intellectual Property Rights in Europe?', 5 *JIP Law & Practice* (2010) 245.

<sup>15</sup> CFI Judgment, *supra* note 2, at paras 229, 337, 339–341, 352, and 439.

<sup>16</sup> *Ibid.*, at paras 334, 643, 665.

<sup>17</sup> Subramanian, *supra* note 14.

<sup>18</sup> Preamble, TRIPS Agreement.

<sup>19</sup> The CFI had refused to adjudicate on the question of the existence of IP rights which was rejected by the Commission because the latter had examined the issue as if Microsoft was entitled to IP rights.

<sup>20</sup> CFI Judgment, *supra* note 2, at para. 777.

The three steps in Article 13 TRIPS work cumulatively, with each being a separate and independent requirement that must be satisfied.<sup>21</sup> In the first instance, Microsoft argued that the compulsory disclosure of its IP rights helped competitors only to 'mimic' the functionality of its own products and, hence, the Commission failed to adhere to the 'special case' specification in Article 13 TRIPS Agreement.<sup>22</sup> As Article 13 TRIPS borrows heavily from Article 9(2) of the Berne Convention for the Protection of Literary and Artistic Works, it would be possible to use 'special' to mean that the exception must have 'a (special) public policy purpose'.<sup>23</sup> This historical meaning was used by the EU in its complaint against the US in the WTO Dispute entitled *United States – Section 110(5) US Copyright Act*.<sup>24</sup> However, the WTO Dispute Panel rejected the historical meaning and stated that 'certain special cases' should not be equated with 'special purpose'.<sup>25</sup> The WTO Panel chose to interpret the

meaning of 'special' in accordance with the guidance given in Article 31 of the Vienna Convention on the Law of Treaties (VCLT).<sup>26</sup> The VCLT states that interpretation must be in good faith in accordance with the 'ordinary meaning to be given to the terms . . . in their context and in the light of its object and purpose'. As such, the WTO Panel found that 'special' connotes 'having an individual or limited application or purpose', 'containing details; precise, specific', 'exceptional in quality or degree; unusual; out of ordinary' or 'distinctive in some way'.<sup>27</sup> The Panel also held that the exception or limitation must be limited in its field of application or exception in scope such that it has a narrow application in both the quantitative and qualitative senses.<sup>28</sup> The Panel therefore not only gave it a narrow scope but also stated that there must be an exceptional or distinctive objective in order for Article 13 TRIPS to apply.<sup>29</sup> It was the Commission's argument that Microsoft's refusal to supply to its competitors 'interoperability information' to allow rival servers to communicate with its dominant Windows PCOS and the 'abusive tying' arrangement of making the sale of Windows conditional upon the simultaneous acquisition of Windows Media Player had created the risk of elimination of the secondary server and media player market. Such behaviour was argued to be hindering technological development and resulting in consumer

<sup>21</sup> WTO Panel Report, *United States – Section 110(5) Copyrights Act*, WT/DS160/R, 15 June 2000, at paras 6.97, 107. The term 'exception' refers to a derogation from an exclusive right provided under national legislation in some respect, while a 'limitation' refers to a reduction of such right to a certain extent. See also Heide, 'The Berne Three-Step Test and the Proposed Copyright Directive', 21 *European IP Rev* (1999) 106.

<sup>22</sup> CFI Judgment, *supra* note 2, at para. 778.

<sup>23</sup> D. Gervais, *The TRIPS Agreement: Drafting History and Analysis* (2008), at para. 2.126; S. Ricketson, *The Berne Convention for the Protection of Literary and Artistic Works 1886–1986* (1987), at 41–45. The Berne Convention is available at: [http://www.wipo.int/treaties/en/ip/berne/trtdocs\\_wo001.html](http://www.wipo.int/treaties/en/ip/berne/trtdocs_wo001.html).

<sup>24</sup> Panel Report, *US – Section 110(5)*, *supra* note 21, at para. 6.105.

<sup>25</sup> *Ibid.*, at para. 6.111.

<sup>26</sup> See also WTO Panel Report, *United States – Standards for Reformulated and Conventional Gasoline*, WT/DS2/9, 20 May 1999, at 16–17.

<sup>27</sup> Panel Report, *US – Section 110(5)*, *supra* note 21, at para. 6.109.

<sup>28</sup> *Ibid.*

<sup>29</sup> *Ibid.*

harm. The Commission's position that compulsory licensing with reasonable remuneration was necessary to prevent anti-competitive abuse of a dominant position in the market provides a sufficiently exceptional or distinctive objective to place exceptions or limitations upon the copyrights involved. Indeed, the use of the IP rights in a manner which can cause an anti-competitive effect has been identified as exceptional enough for it to be specifically prohibited in other TRIPS provisions.<sup>30</sup> Therefore, it can be argued that the *Microsoft* decision complies with the requirement of the first criterion as covered in Article 13 TRIPS.

Microsoft claimed that its IP rights represented 'valuable' commercial information, especially because the information entailed significant investment, and compulsorily licensing the same would have considerable impact on its ability to *exploit* the IP rights *normally*.<sup>31</sup> The WTO Panel in *United States – Section 110(5) Copyrights Act* held that 'normal' exploitation clearly means something less than full use of an exclusive right.<sup>32</sup>

We believe that an exception or limitation to an exclusive right in domestic legislation rises to the level of conflict with a normal exploitation of the work . . . if uses, that in principle are covered by that right but exempted under the exception or limitation, enter into economic competition with the ways that right holders normally extract economic value from that right to the work . . . and thereby deprive them of significant or tangible commercial gains.

Such language was previously used at the revision of the Berne Convention in Stockholm in 1967, where the term 'normal exploitation' was used to refer to 'all forms of exploiting a work which had, or were likely to acquire, considerable economic or practical importance'.<sup>33</sup> In brief, 'if the exception is used to limit a commercially significant market or, *a fortiori*, to enter into competition with the copyright holder, the exception is prohibited'.<sup>34</sup> The fact that interoperability information was previously supplied by Microsoft to its competitors and supply was stopped once Windows became a dominant product in the market jeopardized Microsoft's claim that the compulsory licensing would conflict with the normal exploitation of its IP rights. This argument can be further supported by the WTO Panel's assessment that not every use of a work which in principle is covered by the scope of exclusive rights and *involves commercial gain* necessarily conflicts with the normal exploitation of a work, because, if this were the case, hardly any exception or limitation could pass the test of the second condition and Article 13 might be left devoid of meaning, because normal exploitation would be equated with full use of exclusive rights.<sup>35</sup> In this respect, the WTO Panel concluded:

[A]n exception or limitation to an exclusive right in domestic legislation rises to the level of a conflict with a normal exploitation of the work . . . if uses, that in principle are covered by that right but

<sup>30</sup> Arts 8(2) and 40 TRIPS, discussed in the next section.

<sup>31</sup> CFI Judgment, *supra* note 2, at paras 779, 780.

<sup>32</sup> Panel Report, *US – Section 110(5)*, *supra* note 21, at paras 6.167, 6.182.

<sup>33</sup> WIPO, 'Records of the Intellectual Property Conference of Stockholm', 11–14 June 1967) (1971), at 112.

<sup>34</sup> Gervais, *supra* note 23, at 240.

<sup>35</sup> Panel Report, *US – Section 110(5)*, *supra* note 21, at para. 6.182.

exempted under the exception or limitation, enter into economic competition with the ways that right holders normally extract economic value from that right to the work . . . and thereby deprive them of significant or tangible commercial gains.<sup>36</sup>

As the refusal to supply was in fact, related to those products which were initially supplied by Microsoft, it is possible to argue that compulsory licensing would not have conflicted with Microsoft's ability to exploit its IP rights normally.

The third step of Article 13 TRIPS states that limitations on and exceptions to IP rights should not unreasonably prejudice the legitimate interests of the right-holder. This step is complicated as there is a difficulty in interpreting and defining 'unreasonable prejudice' and 'legitimate interest'. With regard to the issue of 'prejudice to the legitimate interests', the WTO Panel in *United States – Section 110(5)* had attempted to draw a parallel between the analysis of Article 13 and the analysis of Article 30 of TRIPS as dealt with in *Canada – Patent Protection of Pharmaceutical Products*.<sup>37</sup> The WTO Panel had held that the 'prejudice to the legitimate interests of the right holders reaches an unreasonable level if an exception or limitation causes or has the potential to cause an unreasonable loss of income to the copyright owner'.<sup>38</sup> This is supported by Fisor's argument that the interpretation of the exceptions in Article 30 works in parallel with that of Article 13 since both Articles originate

from the same predecessor, Article 9(2) of the Berne Convention.<sup>39</sup> While Microsoft could find this definition of 'prejudice to legitimate interest' favourable to its argument, it has to be applied cautiously on the basis that Article 30 is distinct from Article 13 in that the former refers to the legitimate interests of both the IP right owner and third parties.

The 1967 Stockholm Conference saw the United Kingdom refer to 'legitimate' as simply 'sanctioned by law' without taking into account a normative approach allowing for the term to refer to that which is 'supported by social and relevant public policies'. On the other hand, the word 'unreasonable' prejudice indicates that some degree of prejudice is justified.<sup>40</sup> The WTO Panel Report in *United States – Section 110(5) Copyrights Act* approved the combination of the notion of a legal-normative approach wherein legitimate interest includes not just what is sanctioned by law, but also that which can be supported by relevant public policies.<sup>41</sup> Such an interpretation can allow for a public interest element which could permit legislators to establish a balance between, on the one hand, the rights of the IP right-holder and, on the other, the needs and interests of the users of the IP right.<sup>42</sup> Not only does the TRIPS

<sup>36</sup> *Ibid.*, at para. 6.183.

<sup>37</sup> WTO Panel Report, *Canada – Patent Protection of Pharmaceutical Products*, WT/DS114/R, 17 Mar. 2000.

<sup>38</sup> Panel Report, *US – Section 110(5)*, *supra* note 21, at para. 6.229.

<sup>39</sup> Fisor, 'How Much of What? The "Three-Step Test" and its Application in Two Recent WTO Dispute Settlement Cases', 192 *Revue Internationale du Droit d'Auteur* (2002) 243, as taken from Gervais, *supra* note 23, ch. 2, n. 11.

<sup>40</sup> See Gervais, *supra* note 23, at 240, 241.

<sup>41</sup> Panel Report, *US – Section 110(5)*, *supra* note 21, at paras 6.220–6.220, where only economic loss was considered despite acknowledgement that broader application was possible whilst interpreting this provision.

<sup>42</sup> Okediji, 'Towards an International Fair Use Doctrine', 39 *Columbia J Transnat'l L* (2000) 114.

Agreement recognize that the IP rights can be subjected to misuse and abuse, it enables WTO members to apply anti-competition legislation in their internal legal orders. As will be discussed below, the substantial discretion available to members to legislate anti-competition rules can be presumed to be imposing on them the *responsibility to weigh and balance* whether the prejudice to the IP owner's rights was reasonable. As such, it can be argued that as long as the Commission has engaged in the process of weighing and balancing the rights of the IP owner with the issue of public welfare, the decision has not *prima facie* infringed Article 13 of the TRIPS Agreement.

### A *Protecting Trade Secrets*

Microsoft claimed that the interoperability information was a valuable trade secret and, by compulsorily licensing the same, it was deprived of the benefits of R&D efforts, which would in turn reduce the incentive to make further investment.<sup>43</sup> Trade secret law provides a critically important form of legal protection to vital commercial information which cannot adequately be protected under other forms of IP law.<sup>44</sup> The value of trade secrets exists not on the basis that the information is a patentable invention, but simply because it confers an economic advantage over competitors in the marketplace, which the holder has

maintained by taking reasonable steps to keep it as a secret.<sup>45</sup> Such protection is also available under Article 39 TRIPS, which stipulates that confidential information and business secrets must be protected from disclosure as long as the information is secret, in that it is not generally known or readily accessible to circles which normally deal with the kind of information in question; has commercial value because it is secret and reasonable steps have been taken to keep the information secret. The Association for Computer Technologies (ACT), arguing on behalf of Microsoft, submitted that the requirement to disclose Microsoft's trade secrets was in violation of Article 39 TRIPS as it required members to protect undisclosed valuable information from 'unfair commercial use'.<sup>46</sup> When a competitor uses the information as a 'springboard' which reduces its R&D efforts, then it is likely that the use is deemed to be unfair.<sup>47</sup> Here, 'fair' would refer to use which does not involve breach of confidence or contract or lead to a competitive

<sup>43</sup> *Ibid.*; Landes and Posner, 'Trademark Law: An Economic Perspective', 30 *JL & Econ* (1987) 265.

<sup>44</sup> CFI Judgment, *supra* note 2, at paras 788, 791. See also Case 53/85, *Akzo Chemie v. Commission* [1986] ECR 1965, at para. 28; The Computing Technology Industry Association Inc., 'Competition, Competitors and Consumer Welfare: Observations on DG Competition's Discussion Paper on Article 82', Feb. 2006, available at: <http://ec.europa.eu/competition/antitrust/art82/092.pdf>; Commission Notice 2004/C 101/02, 'Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements', at para. 47, where the Commission acknowledges that trade secrets cannot be recovered once disclosed, such that licensors of know-how could impose severe restrictions on their licensees in order to protect business secrets.

<sup>43</sup> CFI Judgment, *supra* note 2, at paras 273, 274.

<sup>44</sup> See generally Comments by the International Intellectual Property Institute and Institute for Policy Innovation on DG Competition Discussion Paper, at paras 3–12, available at: <http://ec.europa.eu/competition/antitrust/art82/099.pdf>; R. Milgrim, *Milgrim on Trade Secrets* (2005), vol. 1, at para. 2.01.



benefit for the third party, which has not contributed to the R&D resulting in the trade secret.<sup>48</sup>

The Commission refused to be drawn into the argument raised by ACT on the basis that the points were not raised by Microsoft itself. The Commission argued instead that the case law on compulsory licensing did not apply to trade secrets and the protection that secrets enjoy under national law is normally more limited than that given to copyright or patents.<sup>49</sup> The Commission further stated that while there ‘may be a presumption of legitimacy of a refusal to license an intellectual property right “created by law”, the legitimacy under competition law of a refusal to disclose a secret which exists solely as a result of a unilateral business decision depends more on the facts of the case, in particular, the interests at stake’.<sup>50</sup> It further concluded that in the present case the value of the ‘secret’ lay, not in the fact that it involved innovation, but in the fact that it belonged to a dominant undertaking.

It appears from the facts of *Microsoft* that the CFI relied mainly on the Commission’s analysis that the origin of the trade secret was not a result of ‘considerable effort’.<sup>51</sup> This ignores the point that, unlike patents, undisclosed information is protected as long as it has com-

mercial value and it has been kept a secret.<sup>52</sup> Indeed, there is no requirement that the undisclosed information should have innovative value. The CFI does not go any further into analysing whether there was reasonable justification for depriving the IP holder of the trade secret, and instead held that the ‘central issue to be resolved . . . is whether, as the Commission claims and Microsoft denies, the conditions on which an undertaking in a dominant position may be required to grant a licence covering its IP rights are satisfied in the present case’.<sup>53</sup> Though the CFI clearly did not set out to examine the lack of protection for trade secrets, there is consolation in its conclusion that trade secrets must be treated as equivalent to IP rights. Furthermore, it can be argued that, while Article 39 forbids ‘unfair commercial use’, it follows a *contrario* that ‘fair commercial use’ is not prohibited. As TRIPS embraces an unfair competition approach to undisclosed information,<sup>54</sup> it could be argued that Article 39 does not oblige countries to grant exclusive rights to trade secrets.<sup>55</sup>

## B Protecting Trade Marks

Apart from refusal to supply interoperability information, a second issue in the *Microsoft* case related to the alleged tying conduct of making the availability of Windows Media Player conditional on the simultaneous acquisition of Windows

<sup>47</sup> Gervais, *supra* note 23, at 428.

<sup>48</sup> Art. 39 TRIPS. See N. Pires de Carvalho, *The TRIPS Regime of Patent Rights* (2002), at 269–274.

<sup>49</sup> CFI Judgment, *supra* note 2, at para. 280.

<sup>50</sup> *Ibid.*, at para. 280.

<sup>51</sup> EU Chamber of Commerce Report, ‘European Business in China’ (2009/2010), at 13, available at: [http://www.eurochamber.com.cn/images/documents/pp\\_2009-2010/intellectual\\_property\\_rights\\_en.pdf](http://www.eurochamber.com.cn/images/documents/pp_2009-2010/intellectual_property_rights_en.pdf), where the EU expresses concern over ‘leakage of confidential information’.

<sup>52</sup> Art. 39(2)(b) & (c) TRIPS.

<sup>53</sup> CFI Judgment, *supra* note 2, at paras 289, 290.

<sup>54</sup> Art. 39(1) TRIPS states: ‘in the course of ensuring effective protection against unfair competition’.

<sup>55</sup> World Health Organization, *Protection of Data Submitted for the Registration of Pharmaceuticals: Implementing the Standards of the TRIPS Agreement* (2002), at sect. 6.

PCOS.<sup>56</sup> The CFI held that the cumulative conditions for abusive tying were met, as Windows PCOS and WMP were two separate products, with Microsoft being dominant in the former product market access to which could not be obtained without the latter product also being acquired, thus foreclosing competition in the media player market.<sup>57</sup> As a remedy, Microsoft was asked to provide a fully functioning version of Windows PCOS without the WMP in addition to its standard version of Windows PCOS with WMP for the same price.<sup>58</sup> Microsoft claimed that this remedy forced it to remove nearly all of the media functionality in Windows PCOS and supply a degraded product, not designed by itself, under its most valuable Microsoft and Windows trade marks.<sup>59</sup> It claimed that the remedy had infringed Article 20 TRIPS Agreement and that it caused confusion for consumers and harmed the goodwill of the trade mark.<sup>60</sup>

Article 20 TRIPS states that ‘the use of a trademark in the course of trade shall not be unjustifiably encumbered by special requirements, such as use with another trademark, use in a special form or use in a manner detrimental to its capability to distinguish the goods or services of one undertaking from those of other undertakings’. The purpose of this Article is to avoid special requirements which make the use of a trade mark difficult, if not impossible, in the course of trade.<sup>61</sup> An early draft of the TRIPS

Agreement indicates that the initial purpose was to prohibit requirements which would prevent a mark from fulfilling its function as an ‘indicator’ of a perceived source of goods and services.<sup>62</sup> This was subsequently replaced by a more descriptive capability to distinguish the goods or services of one undertaking from those of other undertakings where basically the most direct justification is the requirement to identify the manufacturer on labels and packaging.<sup>63</sup> The Commission argued that Microsoft had failed to prove how its exclusive rights to prevent third parties acting without its consent from using identical or similar signs protected under Article 16(1) TRIPS had been affected.<sup>64</sup> It therefore contended that the function of the trade mark as a guarantee of origin of the product has been preserved. The Commission also pointed out that Microsoft had not lost control of the quality of the product to which its trade mark was affixed, and any confusion which might arise among consumers because of a new version of Windows could be avoided with adequate information and labelling.<sup>65</sup> In addition to the above, Article 17 TRIPS permits members to provide limited exceptions to trade mark rights provided that legitimate interests of the IP holder *and* of third parties have been taken into account.<sup>66</sup> From this broad perspective, it can be argued that the protection granted to a trade mark by TRIPS was not infringed in the *Microsoft* ruling.

<sup>56</sup> Commission Decision, *supra* note 2, at para.794.

<sup>57</sup> CFI Judgment, *supra* note 2, at para. 859.

<sup>58</sup> Commission Decision, *supra* note 2, Art. 6(a).

<sup>59</sup> CFI Judgment, *supra* note 2, at paras 1171, 1173.

<sup>60</sup> *Ibid.*, at paras 1171, 1173, 1174.

<sup>61</sup> Gervais, *supra* note 23, at 285.

<sup>62</sup> *Ibid.*, at 285.

<sup>63</sup> *Ibid.*, at 285, 286.

<sup>64</sup> CFI Judgment, *supra* note 2, at para. 1180.

<sup>65</sup> *Ibid.*, at para. 1181.

<sup>66</sup> *Ibid.*, at para. 1182.

### C *Anti-competitive Provisions in the TRIPS Agreement*

Though TRIPS does not allow restriction of every kind of anti-competitive practice, nor does it embody specific standards for dealing with anti-competitive practices, it does allow members to adopt a legislative framework for the control of anti-competitive practices which may arise from the abusive and restrictive use of IP rights. It is appropriate to begin with a brief mention of Article 31 of the TRIPS Agreement, which covers mainly procedural aspects of compulsory licensing of IP rights, simply in order to set it aside from the main argument of the article.<sup>67</sup> Article 31(k) of the TRIPS Agreement states that if the conduct of the IP right-holder is held to be anti-competitive by either a judicial or an administrative process, the competent authorities are absolved from the condition of negotiating with the patent holder prior to compulsory licensing, nor do they have to ensure that the supply is predominantly for the domestic market. Furthermore, reasonable remuneration available to an IP holder can be reduced in cases where anti-competitive abuse is found.<sup>68</sup>

There are two provisions in the TRIPS Agreement which refer to competition issues at the substantive level: Article 8(2) and Article 40. Article 8(2) can be inferred to be within the context of anti-competitive conduct as it stipulates that appropriate measures may be taken by members to prevent the abuse of IP rights by right-holders, who may resort to practices which *unreasonably restrain*

trade or adversely affect the international transfer of technology. The title of Article 8(2) – Principles – indicates that the intention of the treaty-makers was not to rule on the matter in a detailed form but to allow members ‘substantial discretion’ to regulate, within their territories, anti-competitive conduct which is based on the abuse of IP rights.<sup>69</sup> Article 8(2) stipulates that ‘appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of IP rights by right holders’. Stating that measures ‘may be needed’ indicates that this is neither a permissive nor a limiting provision, but rather an enabling provision, wherein WTO members have agreed that certain abuses occur and there is a need for remedies for the same.<sup>70</sup> The choice of words – ‘appropriate’ measures to deal with ‘unreasonable’ trade practices – indicates that TRIPS conceives that a process of ‘weighing and balancing’<sup>71</sup> is

<sup>69</sup> Abbott, ‘Are the Competition Rules in the WTO TRIPS Agreement Adequate?’, 7 *J Int'l Economic L* (2004) 692; see also UNCTAD-ICTSD, *Resource Book on TRIPS and Development* (2005), at 541, 546; Anderson, ‘The Interface Between Competition Policy and Intellectual Property in the Context of the International Trading System’, 1 *J Int'l Economic L* (1998) 661, at 662; Nguyen, ‘Competition Rules in the TRIPS Agreement – The CFI’s Ruling in Microsoft v. Commission and Implications for Developing Countries’, 39 *Int'l Rev IP and Competition L* (2008) 561.

<sup>70</sup> UNCTAD-ICTSD, *supra* note 69, at 546.

<sup>71</sup> WTO AB Reports, *Korea – Beef*, WT/DS161/AB/R, WT/DS169/AB/R, 11 Dec. 2000, at para. 164: the Appellate Body stated that every appraisal of whether a measure was ‘necessary’ would involve a process of weighing and balancing a series of legal and factual factors. See Trade Barriers Reg. 356/95 amending Reg. 3286/94 laying down Community procedures in the field of the Common Commercial Policy in order to ensure the exercise of the Community’s rights under

<sup>67</sup> TRIPS Art. 31(1) is related to dependent patents the exploitation of which may otherwise be blocked.

<sup>68</sup> TRIPS Art. 31(k).

being undertaken to ensure that ‘clearly excessive remedies, which unnecessarily put the intellectual property altogether in jeopardy’<sup>72</sup> are to be avoided. The TRIPS Agreement as such envisages that members will engage in a process of correlating the nature and proportionality of the measures undertaken with the abuse that is being targeted.<sup>73</sup>

This principle of recognizing and restraining anti-competitive conduct as a form of abuse of IP rights is complemented and further elaborated in Article 40 of the TRIPS which, as pointed out in its title, addresses issues relating to anti-competitive licensing practices and conditions. Article 40(1) TRIPS states that there has been consensus among WTO members that certain licensing practices and conditions pertaining to IP rights are anti-competitive as they may have adverse effects on trade and may impede the transfer and dissemination of technology. Article 40(2) TRIPS thereupon states that nothing in the Agreement shall prevent members from specifying in their legislation licensing practices or conditions which may in particular cases constitute an abuse of IP rights having an adverse effect on competition in the relevant market. In a tone similar to that of Article 8(2), this provision further stipulates that members may adopt, con-

sistently with the other provisions of the Agreement, appropriate measures to prevent or control such abusive practices.

It is obvious from the above that TRIPS does not make any detailed prescription regarding the nature and content of anti-competitive measures, nor does it stipulate any procedural mechanisms for controlling restrictive practices or consequent remedies which may be applied against such behaviour.<sup>74</sup> The varying degrees of specificity in the language of the Agreement may be an indication of its recognition that it is often not possible to provide determinate answers to specific disputed issues, as treaty drafters may not have had the opportunity to take into account the altering political, economic, technological, or scientific landscape.<sup>75</sup> This is further confirmed by the fact that TRIPS does not dwell on finer points such as the definition of ‘abuse’ or ‘anti-competitive practice’, and leaves such issues to be dealt with by domestic legal systems.<sup>76</sup>

## 4 The Doctrine of ‘Consistent Interpretation’

Where the legal language is broad, there is scope for permissible interpretation.

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international trade rules, in particular those established under the auspices of the World Trade Organization, OJ (1995) L 41/3, Preamble: ‘[w]hereas it is appropriate to confirm that the Community must act in compliance with its international obligations and, where such obligations result from agreements, maintain the balance of rights and obligations which it is the purpose of those agreements to establish’.

<sup>72</sup> UNCTAD-ICTSD, *supra* note 69, at 554.

<sup>73</sup> Gervais, *supra* note 23, at 211.

<sup>74</sup> TRIPS Art. 40(2) provides a non-exhaustive list of examples of restrictive practices.

<sup>75</sup> For discussion see Chayes and Chayes, ‘On Compliance’, in B. Simmons and R. Steinberg (eds), *International Law and International Relations* (2006), at 77, 78.

<sup>76</sup> WTO Panel Report, *Mexico – Telecoms*, WT/DS204/R, 2 Apr. 2004, at para. 7.230: ‘the word “anti-competitive” has been defined as “tending to reduce or discourage competition”. On its own, therefore, the term “anti-competitive practices” is broad in scope, suggesting actions that lessen rivalry or competition in the market’.

The doctrine of 'consistent interpretation' in the context of international treaties requires that where national rules allow for different interpretations, the law has to be construed in accordance with international obligations.<sup>77</sup> Application of the principle of consistent interpretation can have considerable impact in the internal application of the law, considering that it 'may, of course . . . lead to the same or similar result as would direct effect'.<sup>78</sup> Indeed, both Article 8(2) and Article 40(2) make it clear that while members may adopt rules to prevent anti-competitive practices, these rules will have to be *consistent* with the fundamental principles of the TRIPS Agreement. At this point it is necessary to look back at the negotiating history of TRIPS, which reveals the concerns of developing countries that the strengthening of IP protection would increase the prospect of monopolistic abuse by suppliers from developed countries, which would be in a stronger position to impose restrictive conditions on the licensing of technology, thereby distorting international trade.<sup>79</sup> The relevant anti-

competitive provisions of TRIPS were thus a concession made by the developed countries at the time of the negotiations for the creation of the WTO. Hence, it is difficult to maintain that the TRIPS Agreement envisaged that members which already had highly developed competition policies would submit unreservedly to rather broad sweeping competition provisions present in the same.<sup>80</sup> The requirement that members make competition provisions consistent with the Agreement can only be a reservation to prevent an excessive application of domestic competition rules by bringing the regular exercise and exploitation of IP rights within the ambit and control of competition authorities.<sup>81</sup> Thus, it can be surmised that, while the provision preserves the freedom of the EU to legislate on anti-competitive practices of IP right-holders which are capable of producing demonstrably negative effects on trade, competition, or transfer of technology, the 'consistency' requirement discourages members from adopting or maintaining measures which are not *necessary*<sup>82</sup> to meet the objectives of the TRIPS Agreement.

<sup>77</sup> Art. 27 VCLT 1986, available at: [http://untreaty.un.org/ilc/texts/instruments/english/conventions/1\\_2\\_1986.pdf](http://untreaty.un.org/ilc/texts/instruments/english/conventions/1_2_1986.pdf). '[a]n international organization party to a treaty may not invoke the rules of the organization as justification for its failure to perform the treaty'. Note: EU has not ratified this treaty.

<sup>78</sup> Rosas, 'The European Court of Justice and Public International Law', in J. Wouters *et al.*, *The Europeanisation of International Law* (2008), at 76.

<sup>79</sup> Roffe and Spennemann, 'Control of Anti-competitive Practices in Contractual Licences under the TRIPS Agreement', in C. Correa and Y. Abdulqawi (eds), *Intellectual Property and International Trade: The TRIPS Agreement* (2002), at 311; see GATT, Multilateral Trade Negotiations, The Uruguay Round, Communication from India, 10 July 1989, MTN.GNG./NG11/W/37, available at: <http://www.wto.org/>

[gatt\\_docs/English/SULPDF/92070115.pdf](http://www.wto.org/gatt_docs/English/SULPDF/92070115.pdf). Watal, *Intellectual Property Rights in the WTO and Developing Countries* (2001), at 22.

<sup>80</sup> See UNCTAD-ICTSD, *supra* note 69, at 551; Cottier, 'The Prospects for Intellectual Property in GATT', 28 *CMLRev* (1991) 410; see Gervais, *supra* note 23, at paras 2.48, 2.182.

<sup>81</sup> UNCTAD-ICTSD, *supra* note 69, at 551; see also Heinemann, 'Antitrust Law of Intellectual Property in the TRIPS Agreement of the World Trade Organization', in F.K. Beier and G. Schricker (eds), *From GATT to TRIPS* (1996), at 239, 242.

<sup>82</sup> There is an extensive jurisprudence with regard to the meaning of the term 'necessary'. Note from the Secretariat, 'Necessity Tests in the WTO', 03-6404, S/WPDR/W/27, 2 Dec. 2003, at para. 4; In *United States – Section 337 of the Tariff Act of 1930*, BISD 36S/345-402 (L/6439), at para. 5.26, 'necessity' consisted in an examination of

This is akin to the ‘good faith’ principle as stipulated in Article 26 VCLT, which states that ‘[e]very treaty in force is binding upon the parties to it and must be performed by them in good faith’.<sup>83</sup> The principle of good faith prohibits the abusive exercise of rights and stipulates that whenever the assertion of a right ‘impinges on the fields covered by treaty obligations, it must be exercised *bona fide*, that is to say, reasonably’.<sup>84</sup> One way for the EU to demonstrate that its legislation in relation to competition law has been invoked, construed, and applied in good faith would have been to incorporate TRIPS provisions within the *Microsoft* decision. This could have been done

by engaging in a process of weighing and balancing of rights and obligations in order to ensure that they do not violate the TRIPS provisions, which in turn would clearly signal that the EC respects and protects the legitimate expectations of associate WTO trading partners.<sup>85</sup> However, the *Microsoft* decision does not engage in such a process, even though the TRIPS Agreement gives members substantial discretion to formulate their competition policy.

In addition, the ECJ applies the doctrine of consistent application specifically with reference to secondary Community law. For example, in *Spain v. Commission*, the ECJ held:<sup>86</sup>

It is settled law that where the wording of *secondary* Community law is open to more than one interpretation, preference should be given to the interpretation which renders the provision consistent with the Treaty rather than the interpretation which leads to its being incompatible with the Treaty.

In *Microsoft*, the CFI held that the principle of consistent interpretation applies *only* in cases of secondary Community legislation by embarking on a literal interpretation of the wording used in *Commission v. Germany*, which stated that:

[T]he primacy of international agreements concluded by the Community over provisions of secondary Community legislation means that such provisions must, so far as it is possible, be interpreted in

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whether a satisfactory and effective alternative existed. In *Korea – Beef*, *supra* note 71, at paras 160, 161, the degree of necessity ranged from ‘something being indispensable’ to ‘making a contribution to’.

<sup>83</sup> See Manin, ‘The European Communities and the Vienna Convention on the Law of Treaties between States and International Organisations or between International Organisations’, 24 *CML-Rev* (1987) 468.

<sup>84</sup> WTO Appellate Body Report, *US – FSC*, WT/DS108/AB/R, 24 Feb. 2000, at para. 166; *Thailand – H-Beams*, WT/DS122/AB/R, 12 Mar. 2001, at para. 97; *US – Lamb*, WT/DS177/AB/R, WT/DS178/AB/R, 1 May 2001, at para. 115; *US – Hot Rolled Steel*, WT/DS184/AB/R, 24 July 2001, at para. 101; *US – Cotton Yarn*, WT/DS192/AB/R, 8 Oct. 2001, at para. 81; *Mexico – Corn Syrup*, WT/DS132/AB/RW, 22 Oct. 2001, at para. 47; *EC – Sardines*, WT/DS231/AB/R, 26 Sept. 2002, at para. 278; *EC – Pipe Fittings*, WT/DS/219/AB/R, 22 July 2003, at para. 127; *EC – Export Subsidies on Sugar*, WT/DS265/266/283/AB/R, 28 Apr. 2005, at para. 307; Cheng, *General Principles of Law as applied by International Courts and Tribunals* (1953), at 125: ‘[a] reasonable and bona fide exercise of a right. . . is one which is appropriate and necessary for the purpose of the right (i.e., in furtherance of the interests which the right is intended to protect)’.

<sup>85</sup> Case C-61/94, *Commission v. Germany* [1996] ECR I-3989, at para. 30, referring to the general rules of treaty interpretation which require that parties to any agreement sign it in good faith of its performance.

<sup>86</sup> Case C-135/93, *Spain v. Commission* [1995] ECR I-1651, at para. 37 (emphasis added).

a manner that is consistent with those agreements.<sup>87</sup>

Given that the ECJ is willing to recognize the primacy of international law, the rule of consistent interpretation should apply to rules of the TFEU and not simply to secondary legislation.<sup>88</sup> By failing to apply the rule of consistent interpretation, the European Court was effectively making the point that in the hierarchy of norms international agreements occupy an intermediate position between primary and secondary EU law. However, international law suggests that the European Union is bound by the treaties it has signed. Hence, the position taken by the EU makes it necessary to examine the triangular relationship between international law, national law, and EU law in order to discern an EU obligation to the TRIPS Agreement.

<sup>87</sup> Case C-61/94, *Commission v. Germany*, *supra* note 85, at para. 52; CFI Judgment, *supra* note 2, at para. 781.

<sup>88</sup> Case C-284/95, *Safety Hi-Tec Srl v. S & T Srl* [1998] ECR I-4301, at para. 22: '[i]t is settled law that Community legislation must, so far as possible, be interpreted in a manner that is consistent with international law'; see Case C-89/99, *Schieving-Nijstad and Others v. Robert Groeneveld* [2001] ECR I-5851, at para 55: 'where the judicial authorities are called upon to apply national rules with a view to ordering provisional measures for the protection of intellectual property rights falling within a field to which TRIPS applies and in respect of which the Community has already legislated, they are required to do so as far as possible in the light of the wording and purpose of . . . TRIPS'; see, e.g., Petersmann, 'Strengthening the Domestic Legal Framework of the GATT Multilateral Trade System', in E.-U. Petersmann and M. Hilf (eds), *The New GATT Round of Multilateral Trade Negotiations* (1991), at 85-93; Cottier and Schefer, 'The Relationship between World Trade Organization Law, National and Regional Law', 1 *J Int'l Economic L* (1998) 84, at 90.

## 5 The Triangular Relationship between National Law, International Law, and EU Law

The WTO took over the functions of GATT, which had predominantly focussed on tariff barriers, and extended its operation to include 'new' trade issues such as trade-related investment measures, trade-in-services, and trade-related aspects of IP rights. The expansion of the world trade agenda to policies which are traditionally part of national affairs forced an explicit internal debate in Europe on fundamental legal problems such as the division of powers between the Community and its Member States regarding the specific subject-matter of the WTO which is covered by exclusive Community competence; the relationship between international law and Community law and the institutional position of the Community and Member States of the Community in the WTO.<sup>89</sup>

## 6 The EC's Exclusive Competence – IP Issues

Since the signing of the Treaty of Rome in 1957, Europe has been progressively integrating to the extent that EU competence over state affairs covers an

<sup>89</sup> For an overview see Kuijper, 'The Conclusion and Implementation of the Uruguay Round Results by the European Community', 6 *EJIL* (1995) 222; see also I. MacLeod *et al.*, *The External Relations of the European Communities* (1996); D. Verwey, *The European Community, The European Union and the International Law of Treaties* (2004); M. Hosli *et al.* (eds), *Institutional Challenges in the European Union* (2002); A. Dashwood and C. Hillion (eds), *The General Law of the EC External Relations* (2000).

increasingly broad range of policy areas, including the authority to negotiate and enforce several aspects of trade relations globally. However, the scope of the Community to conclude international treaties is restricted to those areas in which Member States have granted competence to it.<sup>90</sup> This is confirmed by the landmark ECJ decision in *Costa v. ENEL*, which stated that though the Community has legal personality and capacity to represent Member States at the international level because it was created for an unlimited period by Member States which had transferred part of their sovereignty, such competence to enter into external relations was *limited*.<sup>91</sup> One of the main issues with regard to the signing of the WTO is whether the Community is competent to enter into an international agreement on behalf of the Member States on issues which are primarily domestic such as IP

rights,<sup>92</sup> and, if so, whether that competence is exclusive.<sup>93</sup>

Article 113 EEC sets out the Community competence in the area of the Common Commercial Policy (CCP). Prior to the Maastricht Agreement, the Commission proposed to replace the CCP with a Common 'External Economic Policy' covering broad areas including IP issues. This was rejected by several Member States on the basis that the Community lacked exclusive competence over every aspect of the WTO Agreement.<sup>94</sup> Thus, the exclusive character and scope of the Community's powers under the CCP came under rigorous negotiations, as Member States insisted on their own competences in the fields of services and IP. The issue was put to the ECJ for its opinion by eight Member States, including Germany, France, and the UK, filing separate briefs to the Court along with the European Parliament, arguing against the scope of exclusive competence to be enjoyed by the Commission with regard to the CCP.<sup>95</sup>

The Court in its *Opinion 1/94* confirmed that the Community had exclusive competence only with regard to

<sup>90</sup> The EU legal system allows challenges that an international agreement is in violation of the EU Treaty on the basis of 'lack of competence of the organ concluding the agreement or a legal error in the choice of legal basis': Rosas, *supra* note 78, at 77, 78; e.g., see Case C-327/91, *French Republic v. Commission* [1994] ECR I-3641; Case C-122/95, *Germany v. EU Council* [1998] ECR I-973; Case C-281/01, *Commission v. EU Council* [2002] ECR I-12049; Cases C-317 and 318/04, *European Parliament v. EU Council and Commission* [2006] ECR I-4721. Such challenges to competence do not, however, result in termination of the international agreement – the agreement remains in force for the error to be corrected or, as a final straw, for subsequent withdrawal by the EU from the agreement: see A. Aust, *Modern Treaty Law and Practice* (2000), at 253 ('given the complexity of internal EC rules, if the EC enters into a treaty in breach of those rules any internal irregularity is most unlikely to be manifest').

<sup>91</sup> Case 6/64, *Costa v. ENEL* [1964] ECR 585.

<sup>92</sup> *Opinion 2/94 (European Convention on Human Rights)* [1996] ECR I-1759.

<sup>93</sup> *Opinion 1/78 (International Agreement on Natural Rubber)* [1979] ECR 2871; *Opinion 2/91 (Re ILO Convention)* [1993] ECR I-1061; *Opinion 1/94 (Re WTO Agreement)* [1994] ECR I-5267; and *Opinion 2/92 (Re 3rd OECD Decision on National Treatment)* [1995] ECR I-521.

<sup>94</sup> See EC Commission, 'Intergovernmental Conferences: Contribution by the Commission', [1991] Bull EC, Supp. 2/91, at 92; Billiet, 'From GATT to the WTO: The Internal Struggle for External Competences in the EU', 44 *JCMS* (2006) 899.

<sup>95</sup> See Art. 300(6) TEU; Cremona, 'External Relations and External Competence: The Emergence of an Integrated Policy', in P. Craig and G. de Búrca (eds), *The Evolution of EU Law* (1999), at 137.



trade-in-goods and cross-border services, but denied that it had exclusive competence over other types of trade-in services and most trade-related aspects of IP rights.<sup>96</sup> The Opinion further stipulated that it was essential to ensure 'close cooperation' in those areas where competence fell jointly with the Community and Member States, while negotiating, concluding, and implementing commitments entered into at an international level.<sup>97</sup> Furthermore, the Council Decision concerning the conclusion on behalf of the EC as regards matters within its competence of the agreements reached in the Uruguay Round stated that the EU did not have exclusive competence 'to conclude an international agreement of the type and scope of TRIPS'.<sup>98</sup> As the Community and the Member States had *joint competence* to conclude TRIPS, the WTO charter was signed as a 'mixed agreement' by both the European Community and its Member States in their individual capacities.<sup>99</sup> The nature and specific legal implications of joint partici-

pation in 'mixed agreements' however raise uncertainties regarding the scope of Community competence and the jurisdiction of EU Courts as distinct from Member State competence.<sup>100</sup> For example, it has been argued by some commentators that if the internal allocation of competences were not clear, a third party country could bring disputes against the Community or Member States or both, which created a risk of diverging interpretations by different national courts.<sup>101</sup>

The debate on exclusive competence over 'new' trade issues was raised by the Commission once again during the 1997 Amsterdam Summit, albeit unsuccessfully, on the basis that wider power including competence over IP issues would 'speed up negotiations, simplify decision-making and increase the EU's trade policy influence in relation to the US and Japan', and still later during the Nice Treaty negotiations under the motto of 'united we stand, divided we fall'.<sup>102</sup> In *Parfums Dior*, the ECJ held that in a field where the Community has not yet legislated and which consequently falls within the competence of

<sup>96</sup> See *Opinion 1/94*, *supra* note 93.

<sup>97</sup> *Ibid.*, at para. 108; Nicolaidis and Meunier, 'Revisiting Trade Competence in the EU', in Hosli *et al.* (eds), *supra* note 89, at 186 argue that the 'extremely cautious wording' and 'imprecise language of the Court' in the 1/94 *Opinion* suggest that the ECJ was, in effect, 'sending the ball back to the politicians'.

<sup>98</sup> Council Dec. 94/800/EC of 22 Dec. 1994 concerning the conclusion on behalf of the European Community, as regards matters within its competence, of the agreements reached in the Uruguay Round Multilateral Negotiations (1986–1994), OJ (1994) L 336/1, at para. 68.

<sup>99</sup> See J. Heliskoski, *Mixed Agreements as a Technique for Organizing the International Relations of the European Community and its Member States* (2001); Drexel, 'The TRIPS Agreement and the EC: What Comes Next After Joint Competence?', in Beier and Schricker (eds), *supra* note 81, at 18.

<sup>100</sup> Hilf, 'The ECJ's Opinion 1/94 on the WTO – No Surprise, but Wise?', 6 *EJIL* (1995) 250; Verwey, *supra* note 89, at 158. 159 argues that despite the requirement of 'close cooperation' between Member States and Community, there is no requirement for a 'unified representation'.

<sup>101</sup> Hilf, 'Application of GATT within EEC Member States', in M. Hilf (ed.), *The European Community and GATT* (1986), at 165; see also J. Weiler, *The Constitution of Europe: Do the New Clothes have an Emperor? And Other Essays on European Integration* (1999), at 130–187.

<sup>102</sup> See also the statement made by External Trade Commissioner Sir Leon Brittan in Barber, 'Brussels strives to call the tune on trade', *Financial Times*, 12 Mar. 1997, at 6; Billiet, *supra* note 94, at 908; Nicolaidis and Meunier, *supra* note 90, at 173.

the Member States, the protection of IP rights and measures adopted for that purpose by the judicial authorities do not fall within the scope of Community law.<sup>103</sup> As such, the substantive interpretations of unlegislated provisions of TRIPS are to be interpreted by the contracting parties within their own legal systems. In *Netherlands v. Parliament*, the European Court recognized that the ‘EC cannot enact legislation imposing obligations on Member States that are contrary to the Member State’s obligations under the WTO’.<sup>104</sup> It can also be argued that the EU is not yet ready to exercise exclusive competence to regulate all aspects of IP law, as that would be functional and tenable only when the EU had harmonized IP legislation. Despite this, the insistence of Member States on retaining competence over the instant issues has more or less been seen as a ‘wanton attempt to destroy the strong position of the Community’.<sup>105</sup>

Article 133 TFEU (ex Article 113 TEC) states that the European Union has competence to legislate with regard to issues relating to the ‘commercial aspects of in-

tellectual property rights’.<sup>106</sup> The TFEU also states that in cases where the EU shares competence in a specific area with Member States, the latter shall be able to exercise their competence to the extent that the Union has not exercised competence in a specific area.<sup>107</sup> However, in *Dior and Assco Gerüste*, the ECJ took over jurisdiction for ‘practical and legal reasons’, aiming to achieve ‘uniform interpretation’ in a field in respect of which the Community had not yet exercised its competence and which thereby remained under the competence of the Member States.<sup>108</sup> Furthermore, the Commission is actively involved in the Dispute Settlement arena (with regard to TRIPS) either at the time of initiating a dispute or whilst defending disputes brought against itself or any of the EU Member States.<sup>109</sup> It can therefore be argued that the position and the authority taken by the Community render meaningless any competence that may subsist within the Member States with regard to IP rights. Having discussed the competence of the EU to deal with IP issues at the international level, the next logical step would be to analyse the status of EU law within the hierarchy of norms.

<sup>103</sup> Joined Cases C–300/98 & C–392/98, *Parfums Christian Dior SA v. TUK Consultancy BV and Assco Gerüste GmbH and Rob van Dijk v. Wilhelm Layher GmbH & Co. KG and Layher BV* [2000] ECR I–11307, at paras 47, 48.

<sup>104</sup> Case C–377/98, *Netherlands v. Parliament and Council* [2001] ECR I–7079 (here, the Netherlands argued that the Biotechnology Dir. violated TRIPS and imposed obligations on Member States which would lead to a breach of the Member States’ TRIPS obligations. Note that the Court did not, however, touch upon the issue of legality of the Dir. in relation to TRIPS).

<sup>105</sup> Kuijper, *supra* note 89, at 224; Cremona, ‘A Policy of Bits and Pieces? The Common Commercial Policy after Nice’, 4 *Cambridge Yrbk European Legal Studies* (2001) 62.

<sup>106</sup> See Dashwood, ‘The Limits of European Community Powers’, 21 *EL Rev* (1996) 113; Tietje, ‘The Status of International Law in European Legal Order: The Case of International Treaties and Non-Binding International Instruments’, in Wouters *et al.* (eds), *supra* note 78, at 56.

<sup>107</sup> TFEU Art. 2(2), Annexure listing Declarations to the final Act of the Intergovernmental Conference which adopted the Treaty of Lisbon, 13 Dec. 2007. Sect. 24 of the Declarations clarified that though the EU has legal personality, it will not in any way authorize the Union to legislate or to act beyond the competences conferred upon it by the Member States in the Treaties.

<sup>108</sup> *Dior and Assco Gerüste*, *supra* note 103, at para. 37.

<sup>109</sup> For examples see Billiet, *supra* note 94, at 904–906.

## 7 The Hierarchy of Norms

International treaties are evidence of the express consent of states and international organizations to regulate their interests according to international law.<sup>110</sup> From the perspective of international law, the signing of treaties by states and international organizations represents an acknowledgement of the supremacy of international law over domestic and regional legal systems.<sup>111</sup> This is based on the fundamental general rules of international law found in Article 26 VCLT (i.e., the principle of *pacta sunt servanda*).<sup>112</sup> Article 27 VCLT further makes it clear that states cannot justify failure to conform to international obligations on the ground that domestic law is incompatible with such obligations. Indeed the ECJ has also recognized that the general rules of international law require that 'there must be bona fide performance of every agreement'.<sup>113</sup>

International law, however, depends on states for the enforcement of rules by allowing the latter to develop rules on the manner in which they should introduce international treaty provisions into their internal legal orders.<sup>114</sup> Despite their negotiating and entering into international agreements, the manner in which different states and international organizations apply international treaties to their

internal legal regimes can differ to a considerable extent. Dualist legal systems resort to the method of transformation of international treaty law into domestic law. Monist states give treaties a status equal to that of domestic legislation after the treaties are 'adopted', and thus declare them operative as part of the domestic legal order.<sup>115</sup> From the perspective of individual states, 'the legal regime in its totality' has to be evaluated in order to identify whether it is 'sufficiently precise to be relied upon' by individuals and applied by the domestic courts.<sup>116</sup> The EU approach to international treaties has basically been monistic, wherein the treaties concluded by the Council become part of EU law without any need for further measures of transposition or incorporation.<sup>117</sup>

The problem of incorporation of treaty law into the domestic legal order should not be confused with reconciling treaty obligations with domestic law, as the latter is dependent on the constitutional provisions of the legal order concerned, individual state practice, rules of general international law, and specific provisions of the international treaty.<sup>118</sup> The

<sup>110</sup> Art. 38(1)(a) Statute of the International Court of Justice, available at: [http://www.icj-cij.org/documents/index.php?p1=4&p2=2&p3=0#CHAPTER\\_II](http://www.icj-cij.org/documents/index.php?p1=4&p2=2&p3=0#CHAPTER_II); '[t]he Court shall apply international conventions, whether general or particular, establishing rules expressly recognised by the contesting states'.

<sup>111</sup> Cottier and Schefer, *supra* note 88, at 86.

<sup>112</sup> Gebhardt, 'Pacta Sunt Servanda', 10 *MLR* (1947) 159.

<sup>113</sup> Kupferberg, *supra* note 129, at para. 18.

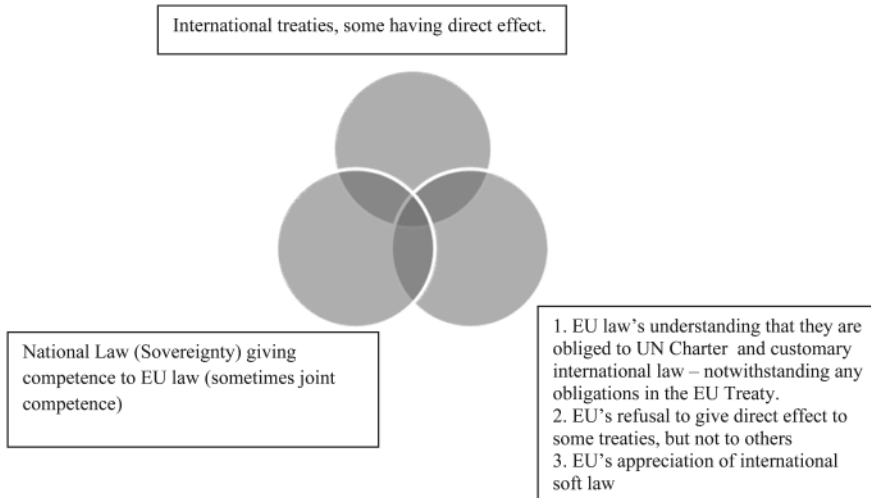
<sup>114</sup> Tietje, *supra* note 106, at 57.

<sup>115</sup> Some monist states may allow domestic legislation which comes into force subsequent to international treaties to supersede the provisions of such treaties.

<sup>116</sup> P. Eeckhout, *External Relations of the European Union: Legal and Constitutional Foundations* (2004), at 274.

<sup>117</sup> Rosas, *supra* note 78, at 75. In some cases implementing measures may be needed if the agreement itself leaves open questions which require regulation in order to ensure full compliance: Eeckhout, *supra* note 116, at 176, 277–278.

<sup>118</sup> Von Bogdandy, 'Legal Effects of World Trade Organization Decisions within European Union Law: A Contribution to the Theory of the Legal Acts of International Organizations and the Action for Damages Under Article 288(2) EC', 39 *J World Trade* (2005) 50.



**Figure 1.** Circular Governance Structure

multi-layered governance structure is so complex that it is illusive to show clear-cut hierarchies between institutions.<sup>119</sup> This multilayered governance structure is characterized by the lack of consensus between national constitutional lawyers, EU lawyers, and international lawyers disagreeing on the order of the hierarchy of norms. Instead of a triangular hierarchical structure, with one norm being dominant such that other norms are obliged to apply or give effect to it, the governance structure takes a circular form, thus adding confusion to the issue of whether or not there should be direct effect or consistent application of treaties in the internal legal orders of the Member States. On one hand, the EU Treaty appears to embrace international principles by explicitly recognizing that international agreements concluded by

the Community 'shall be binding' on the Community's institutions and its Member States.<sup>120</sup> ECJ case law has also referred to and recognized the binding nature of international law.<sup>121</sup> On the other hand, the EU has developed an autonomous legal order which does not allow Member States to deal with the EU Treaty in the same manner as other international treaties. The EU has strict control over the question of direct applicability and interpretation of international treaties by its Member States. The hierarchy of norms from the perspective of the EU legal system is therefore complicated, as

<sup>120</sup> TFEU Art. 300(7).

<sup>121</sup> Case 41/74, *Van Duyn v. Home Office* [1974] ECR 1339, at para. 22; Case C-146/89, *Commission v. United Kingdom* [1991] ECR I-3566, at para. 36; Case C-286/90, *Anklagemyndigheden v. Peter Michael Poulsen and Diva Navigation Corp* [1992] ECR I-6019, at para. 9 ('[the] European Community must respect international law in the exercise of its powers').

<sup>119</sup> Teubner and Fischer-Lescano, 'Regime Collisions: The Vain Search for Legal Unity in the Fragmentation of Global Law', 25 *Michigan J Int'l L* (2004) 999.

the EU legal order appears to retain supremacy over international treaties such as the WTO Agreement.<sup>122</sup>

In order to resolve how the internal law of the Community was to be inserted between international law and the domestic law it was logical that, in the first place, the European Court would seek to establish the Community's primacy over the Member States.<sup>123</sup> In *Costa v. ENEL*, the ECJ established that states cannot legislate in a manner which derogates from or nullifies the obligations they have undertaken under the Community Treaty. It emphasized that the 'transfer by the states from their domestic legal system to the Community legal system of the rights and obligations arising under the treaty carries with it a permanent limitation of their sovereign rights against which a subsequent unilateral act incompatible with the concept of Community cannot prevail'.<sup>124</sup> In *Van Gend en Loos*, the question put by the Dutch tribunal to the ECJ was whether a particular Article of the EC Treaty had *direct application* within the territory of the Member State, such that its nationals could claim upon those rights. In other words, does the norm apply in its internal domestic law in the first place (internal effect or direct applic-

ability) and, secondly, does it have *direct effect* such that an individual can invoke the rights arising from the norm? Though the question is clear, the confusion between the terminologies, 'direct effect' and 'direct applicability' affects its use as an adequate tool for legal analysis.<sup>125</sup> Indeed, this problem is exacerbated by the use of the term 'direct applicability' to denote 'direct effects' in relation to the effect of the EU Treaty in the Member State's legal order.<sup>126</sup> Understanding this concept is vital in the context of the relationship between WTO law and EU law, given that treaty provisions are subject to *direct applicability* as if they are part of the Community legal order even though constitutional principles allow the EU to reject the *direct effect* of international treaties.<sup>127</sup>

With regard to question of the direct effect of TRIPS within the EU, Article 1(1) TRIPS states that members are free to determine the legal means appropriate for attaining that end in their own legal systems unless the agreement, interpreted in the light of its subject matter and

<sup>122</sup> Joined Cases C-402/05 P and C-415/05 P, *Kadi et al. v. Council and Commission*, at para. 285, available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62005J0402:EN:HTML>; the 'obligations imposed by an international agreement cannot have the effect of prejudicing the constitutional principles of the EC Treaty'.

<sup>123</sup> See Case 8/55, *FEDECHAR v. High Authority* [1954-55] ECR 245; Case 6/60, *Humblet v. Belgium* [1960] ECR 559; Case 26/62, *Van Gend en Loos v. Netherlands Inland Revenue Administration* [1963] ECR 1.

<sup>124</sup> *Costa v. ENEL*, *supra* note 91.

<sup>125</sup> See Rosas, *supra* note 78, at 76: 'the confusion contributes to creating the assumption that lack of direct effect of WTO provisions constitutes a departure from monism in the Community'.

<sup>126</sup> See Winter, 'Direct Applicability and Direct Effect: Two Distinct and Different Concepts in Community Law', 9 *CMLRev* (1972) 438: such wrong use is 'less objectionable because . . . it cannot mean that no positive act in accordance with national law is required for the entry into force of a specific provision'.

<sup>127</sup> Rosas, *supra* note 78, at 76; see Case C-245/02, *Anheuser-Busch v. Budějovický Budvar* [2004] ECR I-10989, at paras 41, 42; Joined Cases C-447 and 448/05, *Thomson Multimedia and Vestel France v. Administration des Douanes* [2007] ECR I-2049; *Eeckhout*, *supra* note 116, at 314-316; *Dior*, *supra* note 103, at paras 35 and 40; Case C-49/02, *Heidelberger Bauchemie* [2004] ECR I-6129, at para. 20.

purpose, itself specifies those means. As was seen in the section above, the nature of TRIPS not only allows members the freedom to give effect to the provisions, but gives them substantial discretion to do so. The freedom to determine its own legal rules is exercised by the EU by making it clear that the WTO Agreement, including the Annexes thereto, may not be directly invoked in the Community or Member States' courts.<sup>128</sup> This was confirmed by the ECJ, which held TRIPS to be non-self-executing and to have no direct effect in the EU legal system.<sup>129</sup> Indeed, it has been consistently held in ECJ case law that, 'having regard to their nature and structure, the WTO agreements are not in principle among the rules in the light of which the court is to review the legality of measures adopted by the Community institutions'.<sup>130</sup> However, it is necessary to revert to the ECJ statement making it clear that a general rule

of international law requires that 'there must be bona fide performance of every agreement'.<sup>131</sup>

Given that the EU acts as a new legal order in international law, its function (unlike that of other treaties which regulate the relationship between states) includes concern about the rights and duties of private persons.<sup>132</sup> Thus, in the EU, understanding direct effect begins with the question of *locus standi*, wherein the courts decide if there is a private law remedy such that an individual has the capacity, the title, and interest to sue for a remedy.<sup>133</sup> This concept of 'direct effect' is exhibited in *Van Gend en Loos*, where the Court held that the EC Treaty had direct effect over Member States as it created 'individual rights which national courts must protect'.<sup>134</sup> This was also the case in *Microsoft*, where the CFI charged Microsoft with employing the TRIPS Agreement to challenge the legality of the Commission's Decision under the guise of the principle of consistent interpretation when in reality it had no *locus standi* to seek the application of TRIPS provisions.<sup>135</sup> Judge David Edwards describes direct applicability as a 'passive concept', implying that the text is susceptible of being applied and, by virtue of the form of

<sup>128</sup> Council Dec. 94/800/EC, OJ (1994) L 336/94, 11th Recital, concerning the conclusion on behalf of the European Community, as regards matters within its competence, of the agreements reached in the Uruguay Round multilateral negotiations (1986–1994).

<sup>129</sup> Case 104/81, *Hauptzollamt Mainz v. Kupferberg* [1982] ECR 3641.

<sup>130</sup> See Council Dec. 94/800/EC, *supra* note 128; M. Blakeney, *Trade Related Aspects of Intellectual Property Rights: A Concise Guide to the TRIPS Agreement* (1996); Gervais, *supra* note 23; CFI Judgment, *supra* note 2, at para. 789; Case C-149/96, *Portugal v. Council* [1999] ECR I-8395, at para. 47; Joined Cases C-27/00 and C-122/00, *The Queen v. Secretary of State for the Environment, Transport and the Regions, ex parte Omega Air Ltd and Omega Air Ltd, Aero Engines Ireland Ltd, Omega Aviation Services Ltd v. Irish Aviation Authority* [2002] ECR I-2569 at para. 93; Case C-76/00 P, *Petrotub and Republica SA v. Council* [2003] ECR I-79, at para. 53; Case C-93/02, P, *Biret International v. Council* [2003] ECR I-10497, at para. 52.

<sup>131</sup> *Kupferberg*, *supra* note 129, at para. 18.

<sup>132</sup> Unlike other intergovernmental organizations, the EU possesses legislative jurisdiction over certain territory, has its own currency, defence policy, and even allows for the concept of EU citizenship.

<sup>133</sup> Edward, 'Direct Effect: Myth, Mess or Mystery?', in J.M. Prinssen and A. Schrauwen (eds), *Direct Effect: Rethinking a Classic of EC Legal Doctrine* (2002), at 218; Winter, *supra* note 126, at 425.

<sup>134</sup> *Van Gend en Loos*, *supra* note 123; see also *Dior*, *supra* note 103, at paras 42–45.

<sup>135</sup> CFI Judgment, *supra* note 2, at para. 800.

the instrument, it is automatically integrated as a source of law into both the Community's and the Member States' domestic legal order, without any further step of incorporation, transposition, or reception to render it 'applicable'.<sup>136</sup> Once again, in the EU, this concept encompasses the potential of treaties directly to affect private rights and obligations.<sup>137</sup> In some cases, a directly applicable provision of a treaty may appear to have a certain degree of direct effect without going so far as to create positive rights for specific individuals.<sup>138</sup> Winter argues that this is not an aberration from the norm as there exist in every state laws which are not enforceable in the courts, either because they were not meant to give enforceable rights to private individuals or because they are too vague or too incomplete to admit of judicial application. He concludes that it is therefore not illogical to make the distinction, based on the fact that, while treaties can automatically become an integral part of the law (direct applicability), not all provisions of a treaty necessarily create rights for private individuals which must be enforced

by the courts (direct effect).<sup>139</sup> However, international trade has historically been an area where private parties find it difficult to have a voice at the international law level. The fact that Microsoft is a US firm may have placed on it an additional burden of trying to convince a European Court that it had rights to seek the application of an international treaty to counter the charges of infringement of the TFEU.<sup>140</sup>

In addition, the EU also refuses to apply relevant treaty provisions based on the principle of lack of reciprocity. The idea behind the principle of lack of reciprocity is that the EU should not grant direct effect to WTO Agreements as long as other members such as the USA and Japan do not grant direct effect.<sup>141</sup> The

<sup>136</sup> Edward, 'Direct Effect, The Separation of Powers and the Judicial Enforcement of Obligations', in Giuffrè (ed.), *Essays in Honour of Giuseppe Federico Mancini* (1998), ii, at 426, also available at: <http://www.law.du.edu/index.php/judge-david-edward-oral-history/publications>.

<sup>137</sup> See *Danzig Railways*, PCIJ, Series B, No. 15 at 17, wherein the Court affirmed that international agreements cannot, as such, create direct rights and obligations for private individuals, but 'it cannot be disputed that the very object of an international agreement, according to the intention of the contracting parties, may be the adoption by the parties of some definite rules creating individual rights and obligations and enforceable by the national courts'.

<sup>138</sup> Case C-53/96, *Hermes v. FHT Marketing Choice BV* [1998] ECR I-3603, at para. 28.

<sup>139</sup> Winter, *supra* note 126, at 436, 437. Case C-431/92, *Commission v. Germany* [1995] ECR I-2189, at para 24, makes it clear that there is no connection between the obligations assumed by the state and the rights of individuals or their manner of enforcement. See also Case C-72/95, *Aannemersbedrijf P.K. Kraaijeveld BV e.a. v. Gedeputeerde Staten van Zuid-Holland* [1996] ECR I-5403, at para. 55.

<sup>140</sup> Note that the pharmaceutical industry had a significant role in influencing the US to raise the IP rights issue at a global level. The political conflict is an interesting dimension which this article does not pursue, given that both the US and the EU are developed political structures. See also Fair Trade Commission of Korea (Dec. 2005), available at: [http://ftc.go.kr/data/hwp/microsoft\\_case.pdf](http://ftc.go.kr/data/hwp/microsoft_case.pdf), ordering Microsoft to sell in Korea a version of Windows PCOS which does not include WMP or even Windows Messenger functionality and the response of the Antitrust Division of the US Department of Justice.

<sup>141</sup> Von Bogdandy, 'Legal Equality, Legal Certainty and Subsidiarity in Transnational Economic Law – Decentralized Application of Article 81(3) EC and WTO: Why and Why Not', in A. von Bogdandy et al. (eds), *European Integration and International Coordination* (2002), at 30; von Bogdandy, *supra* note 118, at 52; Kuijper, *supra* note 89, at 227.

ECJ confirms this argument on the basis that the safeguard for legal equality between economic operators in the global market economy makes it necessary to protect EU interests on the basis of possible ‘disuniform application of the WTO rules’.<sup>142</sup> The Court held in *Portugal v. Council* that the WTO provisions are based on reciprocal and mutually advantageous arrangements, and are characterized by their great *flexibility*.<sup>143</sup> Such flexibility allows a member to suspend its obligations, either after consulting the contracting parties jointly and failing agreement between the contracting parties concerned, or even, if the matter is urgent and on a temporary basis, ‘without prior consultation’.<sup>144</sup> It has been argued that the principle of reciprocity has nothing to do with politics as it has a constitutional nature, being derived from the principle of legal equality.<sup>145</sup> However, this argument is not logical, given that the principle of reciprocity and legal equality with regard to international agreements is not stipulated in the TFEU and there is not much legal argument in making one’s own legal compliance with international law dependent on the faithfulness of other states to inter-

national law.<sup>146</sup> Indeed, lack of reciprocity is simply a political issue, as is evident when the analysis is broadened to include the fact that the EU insists that developing countries must enact the provisions of the TRIPS Agreement while the EU does not apply similar principles in its own domestic legal order.<sup>147</sup>

Finally, there is confusion with regard to the ‘separation of powers’, as treaties are negotiated and signed by the executive without the legislator playing an active role in rule making. In this sense, a treaty is a contract between states and not, precisely, a legislative act. The enforcement of treaty provisions by the judiciary would effectively tie the hands of the executive and reduce its bargaining power in international trade negotiations. In *International Fruit*, as the Court did not enforce GATT provisions directly, the executive branch of the EC retained the freedom to engage in negotiations with other states. In the *FIAMM* and *Fedion* judgment, the ECJ was hesitant to intervene and apply the WTO panel decision, as such an act would have the capacity to hinder the negotiation process and reduce the bargaining power of the Community. This would mean that the question of settlement of disputes remains within the political arena. Such an interpretation would allow the argument that, by rejecting direct effect, the European Court is effectively making the point that the treaty provision continues to remain within the jurisdiction of the executive branch. This argument is supported by

<sup>142</sup> *Portugal v. Council*, *supra* note 130, at para. 45.

<sup>143</sup> *Ibid.*, at para. 42.

<sup>144</sup> Case C–280/93, *Germany v. Council* [1994] ECR I–4973, at para. 108; Joined Cases 41–44/70 *International Fruit Company and others v. Commission* [1971] ECR 1107; Case 266/81, *SIOT v. Ministero delle finanze* [1983] ECR 731, at para. 28; and Joined Cases 267–269/91, *Amministrazione delle Finanze dello Stato v. Società Petrolifera Italiana SpA (SPI) and SpA Michelin Italiana (SAMI)* [1983] ECR 801, at para. 23.

<sup>145</sup> Cf. Peers, ‘Fundamental Right or Political Whim?’, in G. De Búrca and J. Scott (eds), *The EU and the WTO* (2001), at 111.

<sup>146</sup> Weiler and Von Bogdandy, ‘International Law as an Element of European Constitutional Law: International Supplementary Constitutions’, Jean Monnet Working Paper 9/03, at 19.

<sup>147</sup> Trade Barrier Reg., *supra* note 71.



consistency in ECJ case law that the 'nature and structure of WTO agreement' do not in principle allow the Court to review the legality of measures adopted by the Community institutions.<sup>148</sup> This is surprising, given that the procedural rules in TRIPS are clear, unconditional, and do not require legislative intervention to be implemented, thus making them capable of being made directly effective within the domestic legal order.<sup>149</sup> The clarity of the structure incorporated in the WTO system has been pointed out as a reason why the ECJ should be ready to move on from its traditional reasoning for denying direct effect. This is clear from the fact that, unlike the GATT, the WTO has created a far stronger institutional framework, especially with regard to its binding nature supported by the Dispute Settlement Understanding (DSU).<sup>150</sup>

## 8 Conclusion

An 'acceptable level' of compliance of international treaties within domestic legal system is complex, given that it may be dependent on the type of treaty, the context, the exact behaviour involved, and the timing of the breach.<sup>151</sup> IP rights in the EU are affected by the fact that there is no clear understanding of the Community's and Member States' obliga-

tions to international treaties. Cottier and Schefer refer to insufficient familiarity with the WTO rules as a reason why they are subjected to 'benign neglect or even amused disrespect'.<sup>152</sup> Ullrich argues that, as the nature and scope of TRIPS provisions relating to the restriction of anti-competitive abusive practices have not been clearly set out, they are 'not to be taken seriously'.<sup>153</sup> Even so, the requirement of consistency in Articles 8(2) and 40(2) has been acknowledged by Ullrich as a 'caveat against an excessive exercise of competition policy' such that the authorities may not use antitrust regulation as a pretext for undermining the protection of IP rights as guaranteed by TRIPS. Therefore, the competition provisions in the TRIPS Agreement appear to have been 'intended as a rule of containment for national competition policy rather than as a norm informing the proper development of such policy'.<sup>154</sup>

On the other hand, commentators have long argued that the TRIPS Agreement is merely an exercise in 'regulatory coercion, for which it is difficult to find a fully satisfactory justification in terms of world welfare'.<sup>155</sup> The structure of international trade is generally determined by

<sup>148</sup> See Council Dec. 94/800/EC, *supra* note 128; Blakeney, *supra* note 130; Gervais, *supra* note 23; CFI Judgment, *supra* note 2, at para. 789; *Portugal v. Council*, *supra* note 130, at para. 47; *Omega Air*, *supra* note 130, at para. 93; *Petrotub*, *supra* note 130, at para 53; *Biret*, *supra* note 130, at para. 52.

<sup>149</sup> Winter, *supra* note 126, at 434.

<sup>150</sup> Annex 2, 'Understanding on Rules and Procedures Governing the Settlement of Disputes', to the WTO Agreement.

<sup>151</sup> Chayes and Chayes, *supra* note 75, at 85, 88.

<sup>152</sup> Cottier and Schefer, *supra* note 88, at 94.

<sup>153</sup> Ullrich, 'Expansionist Intellectual Property Protection and Reductionist Competition Rules: A TRIPS Perspective', in K. Maskus and J. Reichman (eds), *International Public Goods and Transfer of Technology under a Globalized Intellectual Property Regime* (2005), at 726.

<sup>154</sup> *Ibid.*

<sup>155</sup> Govaere and Demaret, 'The TRIPS Agreement: A Response to Global Regulatory Competition or an Exercise in Global Regulatory Coercion?', in D. Esty and D. Geradin (eds), *Regulatory Competition and Economic Integration: Comparative Perspectives* (2001), at 381.

the interests and power of states acting to maximize national goals.<sup>156</sup> Trade policy in light of IP rights and competition policy is etched out with political considerations in mind by developed countries.<sup>157</sup> The original TRIPS Agreement was drafted and interpreted in order unduly to favour the private interests of industries of developed countries above the public interests of developing countries.<sup>158</sup> The EU strategy on enforcement of international treaties is focused on the protection of the private interests of EU industry abroad.<sup>159</sup> Furthermore, though there are advantages to the fact that substantial discretion is available in the TRIPS Agreement to apply competition flexibilities, the lack of guidance casts difficulties in the way of developing countries, which may hesitate to apply them out of fear of retaliation or pressure from developed countries.<sup>160</sup> By including within the ambit of the WTO a binding dispute settlement mechanism which also covers issues arising under TRIPS, the developed countries succeeded in linking international trade issues with international IP rights protection and simultaneously legitimized trade retaliation

for violation of TRIPS obligations.<sup>161</sup> In this regard, it is not entirely surprising that the TRIPS Dispute Settlement procedure has almost exclusively been initiated by developed countries, with a large number of respondents being developing countries.<sup>162</sup> Linking trade negotiations and IP issues was crucial to the EU and US as they wield great influence in multilateral trade negotiations with developing countries.<sup>163</sup>

The theory of 'organised hypocrisy'<sup>164</sup> explains how the procedural fiction of

<sup>156</sup> Krasner, 'State Power and the Structure of International Trade', 28 *World Politics* (1976) 317.

<sup>157</sup> Ullrich, *supra* note 153.

<sup>158</sup> Govaere, 'With Eyes Wide Shut: The EC Strategy to Enforce Intellectual Property Rights Abroad', in A. Dashwood and M. Mareasceau (eds), *Law and Practice of EU External Relations* (2008), at 410; Gerhart, 'Why Lawmaking for Global Intellectual Property is Unbalanced', 22 *European IP Rev* (2000) 309.

<sup>159</sup> Govaere, *supra* note 158, at 414.

<sup>160</sup> Abbott, *supra* note 69.

<sup>161</sup> One example of this is the fact that the TRIPS Agreement does not address the issue of the exhaustion of IP rights, thus not covering an important area of free trade which is the aim of the WTO Agreement: Govaere and Demaret, *supra* note 155, at 378–380; the link between IP and trade was originally made in § Special 301, US Trade Act of 1974 (as amended by the Omnibus Trade and Competitiveness Act of 1988, HR 4848 PL100–418).

<sup>162</sup> For a comprehensive discussion see Gad, 'TRIPS Dispute Settlement and Developing Country Interests', in Correa and Yusuf, *supra* note 79, at 331–383: 'Developing Country Members' use of the DSU system as complainants is almost non-existent, while they figure as defendants in a number of cases . . . the statistics reveal that the WTO DSU mechanism as it relates to the TRIPS Agreement has been almost exclusively used by the US and the EC.' This position is further exacerbated by the fact that scope for WTO disputes being brought against developing countries under TRIPS was limited in its first few years due to the transitional period of five years available to them.

<sup>163</sup> Steinberg, 'The Prospects for Partnership: Overcoming Obstacles to Transatlantic Trade Policy Cooperation in Asia', in R. Steinberg and B. Stokes (eds), *Partners or Competitors? The Prospects for US–EU Cooperation on Asian Trade* (1999), at 213; see also Giust, 'Noncompliance with TRIPS by Developed and Developing Countries: Is TRIPS Working?', 8 *Indiana Int'l and Comp L Rev* (1997) 69.

<sup>164</sup> S. Krasner, *Sovereignty: Organized Hypocrisy* (2000); Drahos, 'BITs and BIPs: Bilateralism in Intellectual Property', 4 *J World IP* (2001) 791; Okediji, 'Back to Bilateralism? Pendulum Swings in International Intellectual Property Protection', 1 *U Ottawa L & Technology J* (2004) 125.

consensus and the sovereign equality of states have served as an 'external display to domestic audiences to help legitimize WTO outcomes'. Though the use of raw power to conclude the Uruguay Round may have exposed those fictions, weaker countries do not have the choice of imposing an alternative rule.<sup>165</sup> The way in which the developed countries exercise treaty principles in the domestic legal order seems to find its root in the Machiavellian theory that 'a prudent ruler can-

not keep his word, nor should he, where such fidelity would damage him, and when the reasons that made him promise are no longer relevant'.<sup>166</sup> It is clear that there is a need to address the disturbing contrast between developing countries scrambling to ensure that their IP legislation is compliant with the TRIPS provisions and the developed countries refusing to examine or incorporate TRIPS provisions within their domestic legal systems.

<sup>165</sup> Steinberg, 'In the Shadow of Law or Power? Consensus-Based Bargaining and Outcomes in the GATT/WTO', in Simmons and Steinberg (eds), *supra* note 75, at 546; see also N. Brunsson, *The Organization of Hypocrisy: Talk, Decisions and Actions in Organizations* (1989), at 130–148.

<sup>166</sup> N. Machiavelli, *The Prince* (1988 edn), at 61, 62.