WORLD TRADE ORGANIZATION

WT/DS170/10
28 February 2001

(01-0981)

CANADA – TERM OF PATENT PROTECTION

Arbitration
under Article 21.3(c) of the
Understanding on Rules and Procedures
Governing the Settlement of Disputes

Award of the Arbitrator
Claus-Dieter Ehlermann

I. Introduction

1. On 12 October 2000, the Dispute Settlement Body (the "DSB") adopted the Panel Report[1] as upheld by the Appellate Body Report[2] in *Canada – Term of Patent Protection* ("*Canada – Patent Term*").[3] At the DSB meeting of 23 October 2000, Canada informed the DSB, pursuant to Article 21.3 of the *Understanding on Rules and Procedures Governing the Settlement of Disputes* (the "DSU"), that it would implement the recommendations and rulings of the DSB in this dispute and that it would require a "reasonable period of time" to do so, under the terms of Article 21.3 of the DSU.

2. In view of the impossibility of reaching an agreement with Canada on the period of time required for the implementation of those recommendations and rulings, the United States requested that such period be determined by binding arbitration pursuant to Article 21.3(c) of the DSU.[4]

3. By joint letter of 10 January 2001, Canada and the United States notified the DSB that they had agreed that the duration of the "reasonable period of time" for implementation should be determined through binding arbitration, under the terms of Article 21.3(c) of the DSU, and that I should act as Arbitrator.[5] The parties also indicated in that letter that they had agreed to extend the time-period for the arbitration, fixed at 90 days from the date of adoption of the Panel and Appellate Body Reports by the DSB, until 28 February 2001.[6] Notwithstanding this extension of the time-period, the parties stated that the arbitration award would be deemed to be an award made under Article 21.3(c) of the DSU. My acceptance of this designation as Arbitrator was conveyed to the parties by letter of 11 January 2001.

4. Written submissions were received from Canada and the United States on 22 January 2001, and an oral hearing was held on 5 February 2001.

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[1]WT/DS170/R.

[2]WT/DS170/AB/R.

[3]WT/DS170/7, IP/D/17/Add.1.

[4]WT/DS170/8, IP/D/17/Add.2.

[5]WT/DS170/9, 10 January 2001.

[6]*Ibid*.

II. Arguments of the Parties

A. *Canada*

5. Canada requests the Arbitrator to fix the "reasonable period of time" at 14 months and two days, so that the "reasonable period of time" will expire on 14 December 2001, that is, the last day the

had claimed a relatively short period for the completion of its legislative process. The arbitrator granted Korea the period it had requested to pass the required legislation, but ruled that the required regulatory change could be completed at the same time as the legislation.[12] Canada notes that, according to the arbitrator, "[a]lthough the reasonable period of time should be the shortest period possible within the legal system of the Member to implement the recommendations and rulings of the DSB, this [did] not require a Member, in [his] view, to utilize an *extraordinary* legislative procedure, rather than the *normal* legislative procedure, in every case."[13]

9. Canada recalls that in *Chile – Taxes on Alcoholic Beverages* ("*Chile – Alcoholic Beverages*"), the arbitrator fixed the "reasonable period of time" at 14 months and nine days.[14] According to Canada, the arbitrator recognized that the management of legislation before it is introduced in the legislature is important, particularly when the legislation is politically sensitive, and held that this should be taken into account.[15]

10. Canada also submits that in *United States – Section 110(5) of the US Copyright Act* ("*United States – Section 110(5)*") the arbitrator set the "reasonable period of time" at 12 months, without explaining his rationale.[16] According to Canada, the arbitrator dismissed the relevance of "controversy", in the sense of domestic "contentiousness", as a relevant consideration in determining the "reasonable period of time". Canada submits that the arbitrator erroneously relied on a statement of the arbitrator in *Canada – Patent Protection of Pharmaceutical Patents* ("*Canada – Pharmaceutical Patents*").[17] In Canada's view, the arbitrator should have taken into account that the

of the first reading is for the bill to be introduced so that it can be printed and distributed to all Members of the House. During the second reading, Members debate and vote on the principle of the bill. The bill is then referred to Committee. The Committee undertakes a clause-by-clause review and study of the bill. The timetable associated with consideration of the bill by the Committee is difficult to predict, and depends on the number of witnesses and experts that are summoned or

jeopardizing the chances of early enactment of the legislation and may result in more time being required to complete the legislative process than would otherwise be the case. Therefore, the government will have to carefully manage the legislative process and engage in consultations with stakeholders and the provinces, both before and during the debate in Parliament.

B. *The United States*

20. The United States asks the Arbitrator to determine that the "reasonable period of time" is six months from the date of the adoption of the Panel and Appellate Body Reports by the DSB in this dispute.

21. The United States submits that if Canada is permitted to delay its implementation of the recommendations and rulings of the DSB in this dispute, thousands of patents will continue to expire "prematurely", causing irreparable harm to patent owners that are United States nationals. For the United States, this is an issue of extreme urgency "in which every day counts".[21] According to the United States, on average, 1,149 patents will "prematurely" fall into the public domain every month of 2001.

22. The United States agrees that a legislative amendment is the most appropriate means of

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> … it is clear that the reasonable period of time, as determined under Article 21.3(c), should be the *shortest period possible within the legal system of the Member* to implement the recommendations and rulings of the DSB.[28] (emphasis added)

39. Although the "reasonable period of time" should be the "shortest period possible within the legal system of the Member" this does not require a Member to utilize an "*extraordinary* legislative procedure" in every case.[29]

40. I now turn to an examination of the arguments made by Canada and the United States in order to determine what would be a "reasonable period of time" in the "particular circumstances" of this dispute.

41. At the outset, I note that the parties agree that the means of implementation in this dispute is legislative, rather than administrative. I recall the statement of a past arbitrator that a legislative change is likely, absent evidence to the contrary, to be more time-consuming than an administrative change.[30]

42. Canada proposes that I set the "reasonable period of time" at 14 months and two days from the date of adoption of the Panel and Appellate Body Reports by the DSB, so that the "reasonable period of time" will expire on 14 December 2001, that is, the last day the Parliament of Canada is scheduled to sit before its Christmas recess in 2001. Canada justifies this request by reference to its usual legislative process. In support of its position, Canada invokes two factors: the limited number of available sitting days of the House of Commons; and the character of the debate, which is likely to be "divisive".[31] According to Canada, any attempt by the government to use extraordinary procedures to limit debate could cause political reactions jeopardizing the chances of early enactment of the legislation. Therefore, the Government of Canada will have to manage carefully the legislative process and engage in consultations with stakeholders and the provinces, both before and during the debate in Parliament.

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[28]Award of the Arbitrator, *European Communities – Hormones*, *supra*, footnote 10, para. 26; quoted with approval in Award of the Arbitrator, *Korea – Alcoholic Beverages*, *supra*, footnote 11, para. 37. See, also, Award of the Arbitrator under Article 21.3(c) of the DSU, *Indonesia – Certain Measures Affecting the Automobile Industry*, WT/DS54/15, WT/DS55/14, WT/DS59/13, WT/DS64/12, 7 December 1998, para. 22; and Award of the Arbitrator, *Canada – Pharmaceutical Patents*, *supra*, footnote 17, para. 47.

[29]Award of the Arbitrator, *Korea – Alcoholic Beverages*, *supra*, footnote 11, para. 42. See, also, Award of the Arbitrator, *United States – Section 110(5)*, *supra*, footnote 16, para. 32.

[30]Award of the Arbitrator, *Canada – Pharmaceutical Patents*, *supra*, footnote 17, para. 49, quoted with approval by the arbitrator in *United States – Section 110(5)*, *supra*, footnote 16, para. 34.

[31]Canada's submission, paras. 29 and 32.

43. The United States requests that I set the "reasonable period of time" at six months from the

recommendations and rulings of the DSB, thousands of patents will continue to expire "prematurely", causing irreparable harm to patent owners; on average, 1,149 patents will fall into the public domain each month during 2001.[35]

47. At the oral hearing, Canada accepted the statistics presented by the United States, but submitted that they are misleading as they fail to indicate whether or not the "prematurely" expiring patents have any commercial significance. According to Canada, "in the period between 2001 and 2009, where the last of the 53,500 term-deficient patents will expire, there are only 34 patents which both fall into the class of affected patents and the class of those known to have some current commercial value." "[B]etween now and December 2001, only 12 of these patents which have commercial value will expire".[36] The United States disagreed with this assertion made by Canada.

48. Canada advanced the argument about the small number of patents with commercial value for the first time at the oral hearing. It is obvious that this argument would raise a major procedural problem if the commercial value of the patents expiring during the "reasonable period of time" had any relevance as a "particular circumstance" for the determination of the length of the "reasonable period of time" in this case. However, in my view, this is not so. Measures taken by Members, which are inconsistent with one of the covered agreements will, naturally, or at least very often, cause irreparable harm to economic operators who are nationals of other Members. In this respect, violations of the *TRIPS Agreement* will generally not differ from violations of one of the other covered agreements. The precise assessment of damage caused to a group of economic operators or to single individuals, or companies, may well be more difficult to evaluate than in the present case. However, this does not distinguish the present case from other cases involving violations of covered agreements for the purposes of determining the "reasonable period of time", under Article 21.3(c). I note that this view corresponds to the position taken by the United States at the oral hearing according to which the argument of urgency was raised to provide context. The United States acknowledged that the commercial value of the expiring patents is not relevant to the determination of the shortest period possible, within the Canadian legal system.

49. I now turn to Canada's main argument in support of its request for a "reasonable period of time" of 14 months and two days. I recall Canada's observation that the required amendment of its *Patent Act* will have an economic impact on Canada's health care system, so that it can be expected

of Canada will have to carefully manage the legislative process. In support of its argument, Canada refers to the arbitration award in *Chile – Alcoholic Beverages.*[37]

50. The United States considers that previous arbitration awards have made clear that the existence of domestic controversy, or the "contentiousness" of proposed implementation, is not a relevant factor in determining a "reasonable period of time". The United States refers to the arbitration award in *Canada - Pharmaceutical Patents*, in which the Arbitrator said:

> I see nothing in Article 21.3 to indicate that the supposed domestic "contentiousness" of a measure taken to comply with a WTO ruling should in any way be a factor to be considered in determining a "reasonable period of time" for implementation. All WTO disputes are "contentious" domestically at least to some extent; if they were not, there would be no need for recourse by WTO Members to dispute settlement.[38]

51. The United States also refers to the award in *United States – Section 110(5)*, in which the arbitrator, quoting from the earlier award in *Canada – Pharmaceutical Patents*, said that:

> … any argument as to the "controversy", in the sense of domestic "contentiousness", regarding the measure at issue is not relevant.[39]

52. Canada considers that the arbitrator in the latter case ignored the fact that the *Canada - Pharmaceutical Patents* award concerned implementation by *administrative* promulgation of an *executive* regulation while the arbitration in *United States – Section 110(5)* concerned implementation by *legislative* means. According to Canada, the arbitrator in the latter case should have taken into account that the legislative process in a democratic state inevitably involves debate. Such legislative debate will be more intense and last longer where there are competing legislative approaches for the implementation of the recommendations and rulings of the DSB.

53. The issue raised by Canada is of great importance, both from the point of view of the implementation of recommendations and rulings of the DSB, that is, the respect of international treaty obligations, and from the point of view of fundamental principles of the democratic process. I do not believe, however, that I have to decide the controversy between the parties for the implementation through legislation in general. My only task is to determine the "reasonable period of time" for the case before me. My reasoning, therefore, applies to this case only.

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[37]Award of the Arbitrator, *Chile – Alcoholic Beverages*, *supra*, footnote 14, para. 43.

[38]Award of the Arbitrator, *Canada – Pharmaceutical Patents*, *supra*, footnote 17, para. 60.

[39]Award of the Arbitrator, *United States – Section 110(5)*, *supra*, footnote 16, para. 42.

54. I recall that Canada is obliged to bring Section 45 of its *Patent Act* into conformity with its obligations under Article 33 of the *TRIPS Agreement* which states that "[t]he term of protection available shall not end before the expiration of a period of twenty years counted from the filing date". Article 33 prescribes a precise result. It defines the earliest date on which the term of a patent may end.[40] Canada may establish a longer period before a patent expires, if it so wishes. However, Canada is not allowed to provide for a period of patent protection shorter than 20 years counted from the filing date.

55. In prescribing a precise result, that is, the duration of the minimum period of patent protection, Article 33 of the *TRIPS Agreement* is quite different from provisions which limit only marginally the discretion of the legislator, such as prohibitions of discrimination between imported and domestic goods or services. Such discrimination can, of course, be eliminated in several ways, while a violation of Article 33 of the *TRIPS Agreement* can only be remedied through one action, that is, by providing for the required minimum period of patent protection.

56. Thus, with respect to the minimum period of patent protection, Article 33 of the *TRIPS Agreement* leaves no room for any legislative discretion or legislative choices. In amending its *Patent Act*, Canada has to ensure that the term of patent protection does not end before the expiration of 20 years counted from the date of filing.

57. Canada cannot, and does not, contest this reasoning. Canada's argument relates, in reality, to "competing legislative choices" that are outside the strict boundaries of the implementation of the recommendations and rulings of the DSB in this case. In particular, Canada has mentioned the view of the Canadian Drug Manufacturers Association, that is, the generic segment of Canada's pharmaceutical industry, that "if the patent term is amended to 20 years from application, it must apply to all patents."[41]

58. The treatment of existing patents which benefit from a longer period of protection than the period prescribed by Article 33 of the *TRIPS Agreement* may be highly controversial and closely connected politically with the amendment of Article 45 of the Canadian *Patent Act*. However, as I have already said, this issue is outside the strict boundaries of the implementation of the recommendations and rulings of the DSB. Consequently, the "contentiousness" of this issue is certainly not a "particular circumstance" which I should take into account in determining the

[40]Report of the Appellate Body, *Canada – Patent Term*, *supra*, footnote 2, para 85.

[41]Canada offered this explanation at the oral hearing, see Canada's opening statement, para. 32. In response to questioning by the Arbitrator, Canada explained that, according to the Canadian Drug Manufacturers Association, an extension of the existing period of patent protection (to 20 years from the filing date, as required by Article 33 of the *TRIPS Agreement*) sp003 12 0 TD0.0038u0.003gtet(p003pe D)6.-7.5(2(A)0(t8(e)72)8.2(iou

adoption of the panel and Appellate Body Reports by the DSB.[43] At the oral hearing, Canada indicated that the government's aim is to introduce the bill for the first reading in early March.

63. Canada has described, in detail, in its written submission the different steps of the legislative phase of its law making process. The passage of legislation requires, in essence, three readings in both Houses of the Canadian Parliament, that is, the House of Commons and the Senate. The process includes an examination of the proposed legislation by committees, which normally takes place between the second and the third reading. Once the House of Commons has considered the bill, it is sent to the Senate for its consideration. After approval by the Senate, the bill is given Royal Assent by the Governor-General. The different steps in this process and their sequence are clearly structured and defined. With respect to timing and scheduling, however, the process is flexible, as Canada acknowledged at the oral hearing. Use of this flexibility does not require recourse to extraordinary procedures.[44] Following earlier arbitration awards, I consider this flexibility to be an important element in establishing the "reasonable period of time".[45]

64. Ultimately, the "reasonable period of time" appears to be a function of the priority which Canada attributes to the amendment of its *Patent Act* in order to bring it into conformity with its obligations under Article 33 of the *TRIPS Agreement*. I recognize that in all democratic societies, legislative initiatives designed to satisfy different needs and wishes compete with each other. I share, however, the view expressed in a recent arbitration award concerning another Member, which I adopt only to the extent that it fits the present case concerning Canada; it seems to me that this is the type of matter for which the Canadian Parliament should try to comply with the international obligations of Canada as soon as possible, taking advantage of the flexibility that it has in its normal legislative procedures.[46]

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[43]In this award, the arbitrator said:

> Arbitrators will scrutinize very carefully the actions an implementing Member takes in respect of implementation during the period after adoption of a panel and/or Appellate Body report and prior to any arbitration proceeding. If it is perceived by an arbitrator that an implementing Member has not adequately begun implementation after adoption so as to effect "prompt compliance", it is to be expected that the arbitrator will take this into account in determining the "reasonable period of time".

See, Award of the Arbitrator, *United States – Section 110(5), supra*, footnote 16, para. 46.

[44]I recall that, although the "'reasonable period of time' should be the 'shortest period possible within the legal system of the Member', this does not require a Member to utilize an '*extraordinary* legislative procedure' in every case." See, *supra*, para. 39 and footnote 29.

[45]See, Award of the Arbitrator, *United States – Section 110(5), supra*, footnote 16, for legislative action. See, also, Award of the Arbitrator, *Canada – Automotive Industry, supra*, footnote 27, para. 47 and 48, for regulatory action.

[46]Award of the Arbitrator, *United States – Section 110(5), supra*, footnote 16, para. 39.

65. Canada justifies its request for a "reasonable period of time" of 14 months and two days on