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**Adventures of a *copyright* lawyer in a WTO *patent* panel:
interpretation of the three-step test relevant for both patents and copyright**

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The paper describes how its author, still as a WIPO official, participated in the preparation of materials for the TRIPS negotiations and, after the adoption of the TRIPS Agreement, in the unfolding cooperation between WIPO and the WTO to promote it. It is also recalled how the very first WTO IP dispute was settled in 1996 on the basis of his opinion prepared on behalf of WIPO. However, the main topic of the paper is a major dispute in which he acted as a member of a WTO panel to interpret the three-step test for the first time, on the basis of the negotiation history of Article 9(2) of the Berne Convention, the way it is provided for exceptions to patent rights in Article 30 of the TRIPS Agreement. Four months later, another panel interpreted the test for copyright exceptions and limitations under Article 13 of the Agreement. By comparing the two panel reports, it is discussed how the three cumulative conditions of the test may be applied, contrary to some views, in a judicious and well-balanced way.

Contents

- 1) Introduction**
- 2) WIPO-WTO cooperation; “interactivity” between WIPO and WTO standards**
- 3) The very first WTO IP dispute - settled on the basis of a WIPO opinion**
- 4) WT/DS114 panel (Canada – Pharmaceutical Patents) followed by WT/DS160 panel (US – Section 110(5) of Copyright Act) interpreting the three-step test under Article 30 and Article 13 of the TRIPS Agreement, respectively – basic facts**
- 5) Specific features of the WTO dispute settlement procedure – seen by an outsider from inside**
 - 5.1. Why a copyright expert in a patent case?
 - 5.2. The role of the negotiating history of WIPO conventions in the interpretation of their provisions to be complied with under the TRIPS Agreement
 - 5.3. Methodology of interpretation; playing Russian roulette with the Oxford Dictionary
- 6) Structure of the three-step test**

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- 6.1. Different versions of the three-step test
- 6.2. The “twin” panels on the structure of the test
- 6.3. Badly founded suggestions that the three conditions of the test should not be applied step by step and that there is no need to fulfil all the three conditions
- 7) **“Judicious” and “well-balanced” application of the first condition of the three-step test: limitations and exceptions limited to certain special cases.**
- 8) **“Judicious” and “well-balanced” application of the second condition of the three-step test: no conflict with a normal exploitation of works (patents, etc.)**
- 9) **“Judicious” and “well-balanced” interpretation of the third condition of the test: no unreasonably prejudice to the legitimate interests of rightholders**
- 10) **“Judicious” and “well-balanced” interpretation of the three-step test: development considerations and other “externalities”**

1. Introduction

There is no need to be an expert of sociology of organizations to understand why the leadership of the WIPO was not in a status of unlimited enthusiasm when the agenda of the Uruguay Round GATT negotiations was broadened in February 1987¹ in a way that, with some not too weighty exceptions (in regard of copyright just the issue of moral rights), practically all intellectual property rights covered by the treaties administered by WIPO had fallen in the category of trade-related aspects of IP rights. The prospect from the elegant Blue Palace at the *Place des Nations* that, in the powerful trade organization downhill at the Lake of Geneva, a competing international system of IP protection and enforcement would emerge was not quite attractive.

At that time, I was WIPO Director and later Assistant Director General in charge of *copyright*; a high official of the somewhat jealousy-stricken organization. In view of this, it may be regarded quite a fascinating development that, in 2000 (not much more than a year after my retirement from WIPO), I became a member of a panel in an important *patent* case under the efficient dispute settlement system of the emerging new organization, the WTO.

I intend to focus on my experience as a member of that panel, which seems to be an appropriate basis to present some typical features of WTO dispute settlement system, and also a symbol of the mutual supportive activities of WIPO and WTO which was established step by step in the late 1980s and in the 1990s. After all, what took place was that we interpreted Article 30 of the TRIPS Agreement, a version of the three-step test for possible exceptions to patent protection, on the basis of the negotiation history of Article 9(2) of the Berne Convention (the mother of all three-steps). It was the first truly thorough scrutiny of the test and the interpretation adopted by us had an impact not only on the application of the TRIPS Article 13 version of the test in a copyright case four months later, but also on the fate of the test under the WIPO Treaties (not only in Berne, but also in the WCT², the WPPT³, the BTAP⁴ and the Marrakesh VIP Treaty⁵).

¹ For the description of the initial stages of the Uruguay Round negotiations, see Daniel Gervais: „The TRIPS Agreement - Drafting History and Analysis”, Second Edition, Thomson, Sweet & Maxwell, 2003, (hereinafter: *Gervais*) at 12-26.

² WIPO Copyright Treaty (WCT) adopted on December 20, 1996 and entered into force on March 6, 2002.

2. WIPO-WTO cooperation; “interactivity” between WIPO and WTO standards

“On a number of occasions, information was requested from WIPO, which answered all such requests and provided useful information, in particular as regards the Paris Convention... and the Berne Convention...”⁶ Daniel Gervais refers in this way to WIPO’s contribution to the TRIPS negotiations still at the end of the 1990.

Later, the cooperation between the two organizations became mutual and quite intensive. In December 1995, an Agreement was concluded between WIPO and the WTO on accessibility of WIPO’s collection of laws and regulations to WTO Members and the TRIPS Council, on the implementation of Article 6*ter* of the Paris Convention for TRIPS purposes and on an intensive legal-technical assistance and technical cooperation under which WIPO also promoted the TRIPS Agreement in its intensive development cooperation program. The famous “Book 223” was published by WIPO containing the TRIPS Agreement and the provisions of the WIPO treaties the WTO Members have to comply with.⁷ And in 1996 we – WIPO Deputy and Assistant Directors General and our colleagues – were on a kind of world tour in various continents along with *Adrian Otten*, the then WTO Director in charge of IP and his staff, to present and promote the joint WTO-WIPO standards.

At the request of the WIPO General Assembly⁸, the WIPO Secretariat prepared and, in October 1996, published a document on the “Implications of the TRIPS Agreement on Treaties Administered by WIPO”⁹. It was a kind of comparative study. I prepared the comparative analysis between Part II, Section 1 of the Agreement on copyright and related rights and the Berne and Rome Conventions. The “Implications” study played a surprisingly important role in December 1996 at the Diplomatic Conference which, at the end, adopted the WCT and the WPPT. The delegations – first of all the delegations of developing countries – stuck to the principle that, although the new treaties may offer solutions to the challenges of digital technology and the Internet, the difficultly negotiated TRIPS standards should remain as intact as possible. This facilitated the negotiations regarding the already settled issues but it also created difficulties in those aspects where interpretation or even adaptation seemed desirable¹⁰. In view of this “TRIPS standards” principle, the copyright and related rights chapter of the “Implications” study was quite frequently referred to at the informal consultations where the compromise solutions were worked out concerning the most delicate issues.

³ WIPO Performances and Phonograms Treaty (WPPT) adopted on December 20, 1996 and entered into force on May 20, 2002.

⁴ Beijing Treaty on Audiovisual Performances (BTAP) adopted on June 24, 2012; not entered into force yet.

⁵ Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled (Marrakesh VIP Treaty) adopted on June 28, 2013; not entered into force yet.

⁶ *Gervais* at 12.

⁷ WIPO publication No. 223(E), 1996.

⁸ See WIPO document WO/GA/XV/3, para. 74.

⁹ WIPO publication No. 464(E), 1996 (hereinafter: *Implications*).

¹⁰ For this, see Mihály Ficsor: „The Law of Copyright and the Internet – The 1996 WIPO Treaties, their Interpretation and Implementation”, Oxford University Press, 2003, (hereinafter: *Ficsor – Oxford*) at 51-61 (the chapter entitled „Diplomatic Conference in the light and shadow of the TRIPS Agreement”).

It is worthwhile referring to two paragraphs of the “Implications” study which were concretely used to eliminate a deadlock in the negotiations, the more so because it concerned the main issue of the dispute to be dealt with by our WTO panel in 2000; namely, the three-step test. Although it was helpful to reach an agreement at the Diplomatic Conference, later it created interpretation problems.

The following agreed statement was adopted concerning Article 10(2) of the WCT on the three-step test for exceptions and limitations, when applying the provisions of the Berne Convention to be complied with under Article 1(4) of the Treaty: “It is also understood that Article 10(2) neither reduces nor extends the scope of applicability of the limitations and exceptions permitted by the Berne Convention.” Since Article 13 of the TRIPS Agreement on the three-step test covers exceptions and limitations to all exclusive rights in works provided in that section of the Agreement, including in particular the exclusive rights provided by Article 1 to 21 of the Berne Convention to be complied with by WTO Members, this was somewhat strangely also an indirect interpretation of the TRIPS Agreement.¹¹

At the informal consultations, this text was based on the following statements in the “Implications” document after reference to Article 13 of the TRIPS Agreement on the three-step test and the provisions of the Berne Convention on exceptions and limitations:

52. None of the limitations and exceptions permitted by the Berne Convention, if correctly applied, conflict with the normal exploitation of the work and none of them should, if correctly applied, prejudice unreasonably the legitimate interests of the right holder.

53. Thus, generally and normally, there is no conflict between the Berne Convention and the TRIPS Agreement as far as exceptions and limitations to the exclusive rights are concerned.¹²

Time and again the issue emerges whether or not the specific exceptions and limitations allowed by the Berne Convention (in Articles 10, 10*bis*, 11*bis*(2), etc.) are also subject to the three-step test as provided in Article 13 of the TRIPS Agreement and Article 10(2) of the WCT. I refer to my paper published on my website www.copyrightseesaw.net¹³ in which I present the reasons for which the text and the negotiation history of these provisions dictate an unequivocal affirmative answer. In regard of those specific exceptions and limitations, the test is an interpretation tool. The above-quoted statements of the “Implications” study refer to this interpretation-tool function of the test by the repeated phrase “if correctly applied”. It was my fault, however, that no example was added which could have made this even clearer. My fault was not that I had not included such an example; the application of compulsory licenses for broadcasting of films was mentioned as an example, stating that, on the basis of the text of Article 14*bis*(2), it would be possible, but it would be in conflict with the normal exploitation of such works (and thus, not only with the basic objective of the

¹¹ See, *Ficsor- Oxford* at 58-61.

¹² *Implications*, at 22-23.

¹³ Mihály Ficsor: „The three-step test under the Trips Agreement and the specific exceptions or limitations permitted by the Berne Convention - its role under the WCT and the draft instrument/treaty on exceptions or limitations for the visually impaired” at www.copyrightseesaw.net.

Berne Convention stated in its Preamble¹⁴, but in the context of the TRIPS Agreement, also with the three-step test under Article 13). My fault was that my comparative analysis in the manuscript of the “Implications” on copyright and related rights was found too detailed and too long; much longer than the analytic parts on trademarks or patents; thus, my colleague who did the final editing of the text was instructed from *Dr. Arpad Bogisch*, the then Director General of WIPO, to shorten it¹⁵, and my example about films, Berne Article 11bis(2), and TRIPS Article 13 became one of the victims of deletions.

3. The very first WTO IP dispute - settled on the basis of a WIPO opinion

The patent panel in which I was the only IP expert as a copyright lawyer was not the only WTO dispute in which I had a role. There was another before and there were some others after it too, although not in the form of panel membership but by contributing through expert opinions.

The first dispute under the TRIPS Agreement concerned the interpretation and implementation of Article 18 of the Berne Convention. It related to the way Japan had regulated the term of protection of the rights of performers and producers of phonograms. Japan began protecting these rights in 1971, but did not extend protection to phonograms that had been produced earlier. The United States, in view of the fact that, from January 1, 1996, it was possible to initiate a dispute settlement procedure, decided to be the first to use it for an IP dispute.

The U.S. complaint was based on the following considerations: Article 14.6 of the TRIPS Agreement prescribes that Article 18 of the Berne Convention must be applied, *mutatis mutandis*, to the rights of performers and producers of phonograms. Article 14.5 of the Agreement provides that the term of protection of the rights of performers and producers of phonograms lasts at least 50 years computed from the end of the calendar year in which the fixation was based. Under the TRIPS Agreement, all the phonograms that have been fixed since 1946, and that have not fallen into the public due to the expiry of the term of protection *previously granted*, must be protected. The phonograms fixed between 1946 and 1971 did not enjoy protection at all and, thus, there was no term of protection “previously granted” that could have expired. For these reasons, it was an obligation of Japan under the TRIPS Agreement to change its Copyright Law, and to extend protection to such phonograms previously having been in the public domain. In 1996, the U.S. initiated a dispute settlement procedure against Japan, and later the European Communities followed suit for the same reasons.¹⁶

¹⁴ The only truly substantive paragraph of the Preamble reads as follows „The countries of the Union, being equally animated by *the desire to protect, in as effective and uniform a manner as possible, the rights of authors in their literally and artistic works...*” (Emphasis added.)

¹⁵ Even with the deletions, my copyright and related rights chapter if the “Implications” has remained the most voluminous one. It fills in 21 pages, while the trademark chapter only 7 pages and the patent chapter also only 7 pages.

¹⁶ For the description of these disputes and their outcome, see Matthew Kennedy and Hannu Wager: „WTO Dispute Settlement and Copyright: The First Seven Years”, in „ALAI Copyright – Internet World; Report on the Neuchâtel Study Days, 16-17 September 2002”, (hereinafter: *Kennedy-Wager*) at pp. 242-43.

During the consultation period *Bruce Lehman*, the then Assistant Secretary of Commerce and Commissioner of Patents and Trademarks, in September 1995 asked for WIPO's "informal views" concerning the interpretation of Berne Article 18. *Arpad Bogsch*, the then Director General WIPO asked me to prepare a study on this topic in the form of a draft letter. The draft response to be signed by Dr. Bogsch, was prepared, in accordance with Articles 31 and 32 of the Vienna Convention on the Law of Treaties (hereinafter: the Vienna Treaties Convention), on the basis of an analysis of the negotiating history of Berne Article 18 as reflected in the records of various diplomatic conferences adopting and revising the Berne Convention. Dr. Bogsch signed and sent it to Mr. Lehman on October 10, 1995 without any substantive modification. (The letter was published later in the Journal of the Copyright Society of the USA.¹⁷) Its text was attached as an Annex to my report presented in an earlier stage of this case in 2005.

The above-mentioned "informal views" expressed on behalf of the International Bureau of WIPO were used during the consultations: The dispute and the parallel dispute between the European Communities and Japan were settled through mutually agreed solutions in accordance with the position expressed in the letter; thus, there was no need to set up panels.¹⁸

As a condition of the mutually agreed solutions, Japan in December 1996 amended its Copyright Law to grant protection to performers in respect of their performances having taken place in a WTO Member and to producers of phonograms (sound recordings) fixed by a national of a WTO Member for a term of 50 years from the end of the calendar years in which the performance took place or the fixation was made, respectively. This protection extended to all phonograms that had not yet fallen into the public domain, due to the expiry of a term of protection previously granted, either in the country of origin or in Japan (that is, also to phonograms fixed between 1945 and 1971 referred to in the complaint of the United States).¹⁹

This very first WTO dispute settlement case showed quite clearly the "teeth" of the WCT/TRIPS system missing in the case of WIPO-administered treaties. An apparent violation of an obligations under the Berne or Rome Convention having remained unchallenged in the pre-TRIPS life of a Convention, suddenly emerged with great emphasis in the WTO dispute settlement system and eliminated. A U.S. commentator of the case described the big difference between the two systems as follows:

"Under the Berne Convention alone, countries might have been able to shrug off such an opinion. Under the TRIPS agreement, however, any dispute would go to a WTO panel, and the panel would indeed look to materials as the Ficsor opinion²⁰ as a factor

¹⁷ Winter 1995 issue.

¹⁸ See WTO documents WT/DS28/4 and WT/DS42/4 containing the notifications of the mutually agreed solutions.

¹⁹ See *Kennedy- Wager* at p 243. See also Copyright Research Institute of Japan (CRIC): „Copyright Update, Japan”, Part IV. 10(1) „Retroactivity of scope of protection of related rights (revision 1996) – Expansion of retroactivity of the scope of protection of related rights” at http://www.cric.or.jp/cric_e/cuj/cuj99/cuj99_1_4.html.

²⁰ It turns out from the rest of the article that the commentator referred to the letter written by me and signed by Arpad Bogsch as the "Ficsor opinion."

in treaty interpretation. *The possibility that Japan could actually lose in front of a panel suddenly became real.* An official from the Japanese copyright office quietly admitted to USTR that he believed the U.S. interpretation was probably correct.”²¹ (Emphasis added.)

Before proceeding to our patent panel, let me add still a comment to this first IP dispute settlement case. In that period, not much time after the entry into force of the TRIPS Agreement, rightholder groups were still full of enthusiasm and intentions to use the dispute settlement system quite frequently. Such an easy success could have offered some further encouragement to initiate similar dispute settlement procedures. Some IP disputes truly took place and the two 2000 disputes on the three-step test discussed below are among the examples. However, if we look back to the 20-year history of the TRIPS Agreement, we can see a definite slowing down. It seems that the potentials of the WTO dispute settlement system have not been exploited in the field of IP rights. It would be an interesting topic for a study to review the reasons; with this presentation, however, I do not have such kind of ambition.

4. *WT/DS114 panel (Canada – Pharmaceutical Patents) followed by WT/DS160 panel (US – Section 110(5) of Copyright Act) interpreting the three-step test under Article 30 and Article 13 of the TRIPS Agreement, respectively – basic facts*

The panel in the WC/DS114 case on Canada – Pharmaceutical Patents, in which I had the honor to be a member, was established on February 1, 1999. Our report was adopted on March 27, 2000 and then also by the Dispute Settlement Body (DSB) on April 7, 2000. For a short but precise description of the case and the report, the best way seems to be quoting the summary published on the WTO website:

1. Measure at issue

Certain provisions under Canada's Patent Act: (i)“regulatory review provision (Sec. 55.2(1))”²; and (ii)“stockpiling provision (Sec. 55.2(2))” that allowed general drug manufacturers to override, in certain situations, the rights conferred on a patent owner.

2. Summary of key panel findings

Stockpiling provision

- TRIPS Arts. 28.1 (patent owner rights) and 30 (exceptions): (Canada practically conceded that the stockpiling provision violated Art. 28.1, which sets out exclusive rights granted to patent owners.) Concerning Canada's defence under Art. 30, the Panel found that the measure was not justified under Art. 30 because there were no limitations on the quantity of production for stockpiling which resulted in a substantial curtailment of extended market exclusivity, and, thus, was not “limited” as required by Art. 30. Accordingly, the Panel concluded that the stockpiling provision was inconsistent with Art. 28.1 as it constituted a “substantial curtailment of the exclusionary rights” granted to patent holders.

²¹ Stephen Obenski: „Retroactive Protection and Shame Diplomacy in the US-Japan Sound Recordings Dispute, or, How Japan Got Berne-d”, Minnesota Intellectual Property Review, vol. 4, 2002, No. 1, at 203 (footnotes have been left out from the text).

Regulatory review provision

- TRIPS Arts. 28.1 (patent owner rights) and 30 (exceptions): (Canada also practically conceded on the inconsistency of the provision with Art. 28.1) The Panel found that Canada's regulatory review provision was justified under Art. 30 by meeting all three cumulative criteria: the exceptional measure (i) must be limited; (ii) must not “unreasonably conflict with normal exploitation of the patent”; and (iii) must not “unreasonably prejudice the legitimate interests of the patent owner”, taking account of the legitimate interests of third parties. These three cumulative criteria are necessary for a measure to be justified as an exception under Art. 30.
- TRIPS Art. 27.1 (non-discrimination): The Panel found that the European Communities failed to prove that the regulatory review provision discriminated based on the field of technology (i.e. against pharmaceutical products in this case), either *de jure* or *de facto*, under Art. 27.1.

3. Other issues

- Burden of proof (TRIPS Art. 30): Since Art. 30 is an exception to the obligations under the TRIPS Agreement, the burden was on the respondent (i.e. Canada) to demonstrate that the patent provisions at issue were justified under that provision.

It seems worthwhile adding that, in addition to the two directly interested parties no less than ten WTO Members – Australia, Brazil, Colombia, Cuba, India, Israel, Japan, Poland, Switzerland, and the United States – also participated in third-party status.

It was the first WTO panel that interpreted the three-step test the way. Not in regard of copyright where the test was born but for exceptions to patent rights as provided in Article 30 of the TRIPS Agreement.

It should be added immediately that four months later another WTO panel dealt with the interpretation of the three-step test; in that case as provided in Article 13 of the TRIPS Agreement for copyright exceptions and limitations. That panel in the WT/DS160 case on US – Section 110 (5) Copyright Act was established on May 26, 1999; its report was adopted on June 15, 2000, and then also by the DSB on July 27 2000. Let us use again the summary published on the WTO website for the description of the basic facts:

1. Measure at issue

Measure at issue: Section 110 of the US Copyright Act that provides for limitations on exclusive rights granted to copyright holders for their copyrighted work, in the form of exemptions for broadcast by non-right holders of certain performances and displays, namely, “homestyle exemption” (for “dramatic” musical works) and “business exemption” (works other than “dramatic” musical works).

2. Summary of key panel findings

- “*Minor exceptions*” doctrine: Regarding the US argument that limitations on exclusive rights in the US Copyright Act are justified under TRIPS Art. 13, as Art 13 “clarifies and articulates the 'minor exceptions' doctrine”, the Panel concluded as an initial matter:

(i) that there is a “minor exceptions” doctrine that applies to Berne Convention Art. 11*bis* and 113; and (ii) that the doctrine has been incorporated into the TRIPS Agreement.

• *TRIPS Art. 13 (limitations on exclusive copyrights)*: The Panel clarified “three criteria” that parties have to cumulatively meet to make limitations to exclusive right under Art. 13: the limitations or exceptions (i) are confined to certain special cases; (ii) do not conflict with a normal exploitation of the work; and (iii) do not unreasonably prejudice the legitimate interests of the right holder. Based on these criteria, the Panel found as follows:

“Homestyle exemption”: The Panel found that the homestyle exemption met the requirements of Art. 13, and, thus, was consistent with Berne Convention Art. 11*bis*(1)(iii) and 11(1)(ii) as incorporated into the TRIPS Agreement (Art. 9.1): (i) the exemption was confined to “certain special cases” as it was well-defined and limited in its scope and reach (13-18 per cent of establishments covered); (ii) the exemption did not conflict with a normal exploitation of the work, as there was little or no direct licensing by individual right holders for “dramatic” musical works (i.e. the only type of material covered by the homestyle exemption); and (iii) the exemption did not cause unreasonable prejudice to the legitimate

interests of the right holders in light of its narrow scope and there was no evidence showing that the right holders, if given opportunities, would exercise their licensing rights.

“Business exemption”: The Panel found that the “business exemption” did not meet the requirements of Art. 13: (i) the exemption did not qualify as a “certain special case” under Art. 13, as its scope in respect of potential users covered “restaurants” (70 per cent of eating and drinking establishments and 45 per cent of retail establishments), which is one of the main types of establishments intended to be covered by Art. 11*bis*(1)(iii); (ii) second, the exemption “conflicts with a normal exploitation of the work” as the exemption deprived the right holders of musical works of compensation, as appropriate, for the use of their work from broadcasts of radio and television; and (iii) in light of statistics demonstrating that 45 to 73 per cent of the relevant establishments fell within the business exemption, the United States failed to show that the business exemption did not unreasonably prejudice the legitimate interests of the right holder. Thus, the business exemption was found inconsistent with Berne Convention Art. 11*bis*(1)(iii) and 11(1)(ii).

It seems musical works attracted less attention than pharmaceutical products, because in this case, only half as many WTO Members – five: Australia, Brazil, Canada, Japan and Switzerland – participated in third-party status as in the patent case.

The two cases and reports are closely linked to each other concerning the interpretation of the three-step test. Therefore, it is justified that I discuss the substantive aspects of the panel report with the relevant aspects of the copyright report – the more so because, since that time, it has been in the field of copyright that the application of the three-step test has become the focus of heated debates. Before that, however, let me review the specific features of the WTO dispute settlement system that I – as an ex WIPO official in charge of copyright – have experienced as a member of a WTO panel in a patent dispute.

5. Specific features of the WTO dispute settlement procedure – seen by an outsider from inside

5.1. Why a copyright expert in a patent case? This is the first question which was asked both by me when I nominated and by others when I spoke with them about my role in the patent panel. Before joining WIPO in 1985, I was the Director General of ARTISJUS, the Hungarian authors' society for ten years and during the last two congress periods, also the Vice President of the ten-member Executive Bureau, the key administrative body of the International Confederation of Societies of Authors and Composers (CISAC) and, thus, I was very deeply involved in the management of those rights the protection and exercise of which were at issue in the above-mentioned copyright case. I also published a number of books and articles and spoke at many conferences, seminars and other meetings on this topic. Therefore, I asked the question of in which of the two "twin" 2000 panels I was a member, in general, I heard a choir: of course, in the copyright panel.

Such kinds of responses may have been explained by the absence of familiarity with the WTO dispute settlement system. The views of real well-known experts of a given topic become well-known on the basis of their numerous publications and presentations. Thus, one of the parties in the dispute, or even both of them, may very easily find some statements which does not seem advantageous for their cause. Such experts do not have good chance to become a panel member because the parties have a weighty say in the composition of the panels. Under Article 8(6) of the Dispute Settlement Understanding (DSU), the Secretariat proposes panel members and, in principle, the parties "shall not oppose nomination except for compelling reasons". In practice, there is no real scrutiny of the reasons of opposition; the parties to the dispute have got a kind of *de facto* veto power and this leads quite frequently to the application of Article 8(7) under which, where the parties are unable to agree, the Director General nominates a panel.

Our panel did correspond to the requirement of Article 8(2) of the DSU under which the "[p]anel members should be selected with a view to ensuring... a sufficiently diverse background and a wide spectrum of experience". The late *Robert E. Hudec*, an outstanding trade lawyer and real – genuine insider – expert of the GATT and WTO dispute settlement system was the chairman, while the other members were *Jaime Sepúlveda*, at that time Director General of the National Institute of Public Health (INSP) in Mexico, the No. 1 epidemiology expert of his country, and I, a relatively freshly retired Assistant Director General of WIPO from Hungary²² with my IP – but not specifically patent – background.

In the copyright panel later in 2000, there was stronger trade policy influence since both the chairman (from Chile)²³ and one of the other members (from India)²⁴ were well-known trade experts, while the third member was the former President of the Australian Copyright

²² At that time, in 2000, Hungary was not a member of the European Union; it only joined to it in 2004 (in fact, the European integration itself was not yet in the stage of a Union either; the European Communities (EC) was party to the dispute). Thus, there was no problem, from the viewpoint of Article 8.3 of the DSU, in my acting as a panel member in a dispute between the EC and Canada.

²³ Carmen Luz Guarda.

²⁴ Arumugamangalam V. Ganesan.

Council²⁵. As discussed below, the trade policy dominance – with less attention to IP (in particular copyright) policy considerations – was also manifested in the report of that panel. This was, however, in perfect harmony with the very first provision – Article 8(1) – of the DSU on the composition of panels which foresees even more unilateral trade-law dominance. In the non-exhaustive list following the word “including”, only trade representatives, officials or experts may be found.

Panels shall be composed of well-qualified governmental and/or non-governmental individuals, including persons who have served on or presented a case to a panel, served as a representative of a Member or of a contracting party to GATT 1947 or as a representative to the Council or Committee of any covered agreement or its predecessor agreement, or in the Secretariat, taught or published on international trade law or policy, or served as a senior trade policy official of a Member.

It may be said that this is just normal in the case of a trade organization. However, it is also true that the panels are supposed to act in disputes where highly specific professional questions are at issue. Therefore, in the case of trade-policy-dominated panels, in addition to a possible member who may have more or less knowledge and experience in the given field, much depends on the information made available to the panel by the WTO Secretariat’s IP experts and on the documents submitted and oral arguments presented by the parties to the dispute as well as by third parties. Our panel was well equipped from this viewpoint, due to the Secretariat’s *Matthijs Geuze* and *Hannu Wager* and the extremely rich documentation presented by the two parties and the ten third parties.

5.2. The role of the negotiating history of WIPO conventions in the interpretation of their provisions to be complied with under the TRIPS Agreement. As discussed below, Article 30 of the TRIPS Agreement differs in certain aspects from Article 13 of the Agreement (and Article 9(2) of the Berne Convention), even if it may be regarded as an adapted version of the “three-step test” as provided in the international copyright norms. Therefore, not all the results of the analysis of Article 30 were directly applicable for the interpretation of Article 13 of the Agreement. Nevertheless, still there were various findings of the patent report which were relevant for copyright too; for example, as discussed below, the clarification of the structure of the test (namely, that it is truly a test the three cumulative conditions of which are to be applied in three subsequent steps) and certain criteria which are the same in the two versions of the test.

However, in addition, there was also a “macro” issue which was clarified by the patent panel in a way that its findings were later applicable also in the copyright case. Namely, the issue of what role, if any, the negotiating history of WIPO conventions may have in those cases where the provisions of those conventions have been incorporated by reference into the TRIPS Agreement, or even where some of those provisions have been “reproduced” either directly or – as in the case of Article 30 the Agreement – in a more or less adapted version of the TRIPS Agreement rather than being incorporated simply by reference.

The report of the patent panel referred to the provisions of the Vienna Treaties Convention on treaty interpretation, in particular to its Article 32 concerning supplementary means of

²⁵ Ian F. Sheppard.

interpretation (including the preparatory work of a treaty and the circumstances of its conclusion) and then stated as follows:

The Panel notes that in the framework of the TRIPS Agreement, which incorporates provisions of the major pre-existing international instruments on intellectual property, the context to which the Panel may have recourse for purposes of interpretation of specific TRIPS provisions... is not restricted to the text, preamble and annexes of the TRIPS Agreement itself, but also includes the provisions of the international instruments on intellectual property incorporated into the TRIPS Agreement... Thus..., Article 9(2) of the Berne Convention... is an important contextual element for the interpretation of Article 30 of the TRIPS Agreement... As a consequence of the extended context that has to be taken into account, when interpreting provisions of the TRIPS Agreement, the Panel, in considering the negotiating history of the TRIPS Agreement, concluded that interpretation may go beyond the negotiating history of the TRIPS Agreement proper and also inquire into that of the incorporated international instruments on intellectual property.²⁶

This was the finding which, to a certain extent, “retrospectively” offered some justification for the nomination of a copyright lawyer as the only IP expert of the patent panel.

5.3. Methodology of interpretation; playing Russian roulette with the Oxford Dictionary. There is one more feature of the WTO dispute settlement practice which should be mentioned before turning to the substantive findings of the 2000 “twin” panel concerning the interpretation and application of the three-step test. This is the quite specific role of the Oxford Dictionary in the interpretation of the provisions of the TRIPS Agreement.

The panel interpreted the relevant provisions of the TRIPS Agreement – as it had to – in applying Articles 31 and 32 of the Vienna Treaties Convention on the interpretation of treaties which read as follows:

31.1. A treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.

2. The context for the purpose of the interpretation of a treaty shall comprise, in addition to the text, including its preamble and annexes:

(a) any agreement relating to the treaty which was between all the parties in connexion with the conclusion of the treaty;

(b) any instrument which was made by one or more parties in connexion with the conclusion of the treaty and accepted by the other parties as an instrument related the treaty.

3. There shall be taken into account together with the context:

(a) any subsequent agreement between the parties regarding the interpretation of the treaty or the application of its provisions;

(b) any subsequent practice in the application of the treaty which establishes the agreement of the parties regarding its interpretation;

²⁶ Panel report WT/DS114/R, para. 7.14.

(c) any relevant rules of international law applicable in the relations between the parties.

4. A special meeting shall be given to a term if it is established that the parties so intended.

32. Recourse may be had to supplementary means of interpretation, including the preparatory work of the treaty and the circumstances of its conclusion, in order to confirm the meaning resulting from the application of article 31, or to determine the meaning when the interpretation according to article 31:

(a) leaves the meaning ambiguous or obscure; or

(b) leads to a result which is manifestly absurd or unreasonable.

It is clear that the “king” of all these rules is what is included in Article 31.1 of the Vienna Convention. Thus, it is perfectly in order that the WTO panels first try to identify the “ordinary meaning to be given to the terms of the treaty”. Since the meanings of terms are involved, it is, of course, also justified to check certain definitions in a dictionary. It seemed to be equally logical that the 1993 edition of “New Shorter Oxford English Dictionary” was used by the panels (after all, it may be said that what is important is what meanings were given to the terms around the time when the TRIPS Agreement was adopted. Nevertheless, there is a problem with what seems to be an established practice of the WTO dispute settlement bodies of lending decisive importance to what may be found in the Dictionary.

The problem is the unfriendly relationship of this methodology with reality – or it may be said with the “ordinary” way of treaty making. It is very rare, if it happens at all, that such a dictionary is used and referred to at diplomatic conferences or other forums of negotiations like what took place in the Uruguay Round. Furthermore, dictionary definitions contain a number of alternatives, synonyms or, at least, differing shades of meanings. It may be like playing “Russian roulette” to select some of them and reject or neglect others. It is quite rare that the various elements of dictionary definitions determine the meaning of a term in a way that a panel may rely itself on it blindly without making use of other interpretation sources.

In general, it is advisable to pay due attention to the elements of the “context” mentioned in paragraph 2 of Article 31 of the Vienna Treaties Convention, and to other factors to be taken into account “together with the context” listed in paragraph 3 thereof. Also it seems desirable to take into consideration so-called “supplementary means of interpretation” mentioned in Article 32; that is, the preparatory work and the circumstances of the conclusion of the treaty. On the basis of these sources of interpretation, usually it is possible to identify a specific meaning of a term (at least, specific in contrast with the rich offer of alternatives and synonyms of the Dictionary) that, under paragraph 4 of Article 31 of the Vienna Treaties Convention must be chosen (rather than directly one of the dictionary alternatives or synonyms).

In my view, the copyright panel has not duly taken into account these aspects. As briefly discussed below, for the interpretation of the first condition of the three-step test (exceptions and limitation to be limited to *certain special cases*), it has chosen an alternative meaning in the Dictionary without further considerations that would have been necessary, and that meaning does not seem to be the right one.

6. Structure of the three-step test

6.1. Different versions of the three-step test. Before turning to the truly substantive aspects of the 2000 “twin” panel reports on the interpretation of the three step test, it seems indispensable to quote those versions of the text which, from the viewpoint of the panels’ findings, are truly relevant (the inserted internal numbering indicates the structure):

The very first version – in Article 9(2) of the Berne Convention – only applies to exceptions to and limitations of the exclusive right of reproduction:

(2) It shall be a matter for legislation in the countries of the Union to permit the reproduction of such [literally and artistic] works **[1]** in certain special cases, **[2]** provided that such reproduction does not conflict with a normal exploitation of the work and **[3]** does not unreasonably prejudice the legitimate interests of the author.

The TRIPS Agreement followed which, in its Article 13, extended the application of the test to control all possible copyright exceptions and limitations in respect of all exclusive rights to be protected under the Agreement (by virtue of the obligation to comply, according to Article 9.1, with the provisions of the Berne Convention along with the right of rental by which Article 11 of the Agreement has broadened the scope of those rights):

Members shall confine limitations or exceptions to exclusive rights **[1]** to certain special cases **[2]** which do not conflict with a normal exploitation of the work and **[3]** do not unreasonably prejudice the legitimate interests of the right holder.

The structure of Article 30 of the Agreement is the same, but its language also includes differing elements (to the truly substantive aspects of the latter, emphasis is added):

Members may provide **[1]** limited exceptions to the *exclusive* rights conferred by a patent, **[2]** provided that such exceptions do not *unreasonably* conflict with a normal exploitation of the patent and **[3]** do not unreasonably prejudice the legitimate interests of the patent owner, *taking into account of the legitimate interests of third parties*.²⁷

The coverage of the test is similar under Article 10 WCT to that of Article 13 of the TRIPS Agreement in the sense that it applies for all possible exceptions and limitations concerning both the rights provided in the provisions of the Berne Convention (to be complied with) and those by which the Treaty has broadened the scope of rights. Just, in this article of the WCT, the provisions concerning these two categories of exclusive rights are separated (while, in the TRIPS Agreement, they are compressed into one article):

(1) Contracting Parties may, in their national legislation, provide for limitations and exceptions to the rights granted to authors of literary and artistic works under this Treaty **[1]** in certain special cases **[2]** that do not conflict with a normal exploitation of the work and **[3]** do not unreasonably prejudice the legitimate interests of the author.

²⁷ Article 26.2 of the Agreement provides for the same test, *mutatis mutandis*, for exceptions to the protection of industrial designs.

(2) Contracting Parties shall, when applying the Berne Convention, confine any limitations or exceptions to rights provided for therein [1] to certain special cases [2] that do not conflict with a normal exploitation of the work and [3] do not unreasonably prejudice the legitimate interests of the author.²⁸

6.2. The “twin” panels on the structure of the test. No doubt whatsoever emerged in the two WTO cases as to the structure of the test. Namely, that it includes three cumulative conditions to be applied step by step in a way that if one of the conditions is not met, an exception or limitation cannot be applied.

The patent panel report summed up the findings in this way which also corresponded to the non-disputed position of the parties to the dispute:

7.20 Both parties agreed upon the basic structure of Article 30. Article 30 establishes three criteria that must be met in order to qualify for an exception: (1) the exception must be "limited"; (2) the exception must not "unreasonably conflict with normal exploitation of the patent (3) the exception must not "unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties". The three conditions are cumulative, each being a separate and independent requirement that must be satisfied. Failure to comply with any one of the three conditions results in the Article 30 exception being disallowed.

7.21 The three conditions must, of course, be interpreted in relation to each other. Each of the three must be presumed to mean something different from the other two, or else there would be redundancy. Normally, the order of listing can be read to suggest that an exception that complies with the first condition can nevertheless violate the second or third, and that one which complies with the first and second can still violate the third. The syntax of Article 30 supports the conclusion that an exception may be "limited" and yet fail to satisfy one or both of the other two conditions. The ordering further suggests that an exception that does not "unreasonably conflict with normal exploitation" could nonetheless "unreasonably prejudice the legitimate interests of the patent owner".²⁹

There was no doubt about the structure of the test in the copyright panel either:

6.97 Article 13 of the TRIPS Agreement requires that limitations and exceptions to exclusive rights (1) be confined to certain special cases, (2) do not conflict with a normal exploitation of the work, and (3) do not unreasonably prejudice the legitimate interests of the right holder³⁰.... The principle of effective treaty interpretation requires us to give a distinct meaning to each of the three conditions and to avoid a

²⁸ The three-step test also controls the application of exceptions and limitations in the same structure under WPPT (Article 16), the BTAP (Article 13) and the Marrakesh VIP Treaty (Article 11).

²⁹ Panel report WT/DS114/R.

³⁰ [Original footnote 105 in panel report WT/DS160] See the text of the Article in paragraph 6.31 and in footnote 93 above. As we noted in paragraph 6.72 above, the wording of Article 13 derives largely from Article 9(2) of the Berne Convention (1971) which applies, however, to reproduction rights only. Given the similarity of the wording, we consider that the preparatory works of Article 9(2) of the Berne Convention and its application in practice may be of contextual relevance in interpreting Article 13 of the TRIPS Agreement.

reading that could reduce any of the conditions to "redundancy or inutility".³¹ The three conditions apply on a cumulative basis, each being a separate and independent requirement that must be satisfied. Failure to comply with any one of the three conditions results in the Article 13 exception being disallowed. Both parties agree on the cumulative nature of the three conditions. The Panel shares their view. It may be noted at the outset that Article 13 cannot have more than a narrow or limited operation. Its tenor, consistent as it is with the provisions of Article 9(2) of the Berne Convention (1971), discloses that it was not intended to provide for exceptions or limitations except for those of a limited nature. The narrow sphere of its operation will emerge from our discussion and application of its provisions in the paragraphs which follow.³²

6.3. Badly founded suggestions that the three conditions of the test should not be applied step by step and that there is no need to fulfil all the three conditions. A group of academics have raised doubts about, and launched a campaign against, the "traditional" interpretation of the three-step-test. They allege that the test, during its more than 40-year-long carrier, has not been applied adequately by legislators, governments, courts, dispute-settlement bodies, etc., and, thus, a new – "more judicious" and "better balanced," "flexible" – interpretation should be adopted. According to this group of academics, the main culprits are the "twin" WTO panels of 2000. The patent panel because it applied the three-step test in three steps and the copyright panel because it followed suite.

The position of these academics was summed up in a Declaration in Munich in July 2008 on the occasion of an ATRIP³³ conference. The key statement of the Declaration on the structure of the test read as follows:

*When correctly applied, the Three-Step Test requires a comprehensive overall assessment, rather than the step-by-step application that its usual, but misleading, description implies. No single step is to be prioritized. As a result, the Test does not undermine the necessary balancing of interests between different classes of rightholders or between rightholders and the larger general public. Any contradictory results arising from the application of the individual steps of the test in a particular case must be accommodated within this comprehensive, overall assessment. The present formulation of the Three-Step Test does not preclude this understanding. However, this approach has often been overlooked in decided cases.*³⁴ (Emphasis added.)

A footnote was added at the end of this paragraph which read as follows:

See for instance the decision of the French Supreme Court, 28 February 2006, 37 IIC 760 (2006). The same attitude is revealed the *WTO-Panel report WT/DS114/R* of 17 March 2000 (Canada – Patents), where *it is held that failure to meet the requirements*

³¹ [Original footnote 106 in panel report WT/DS160] Appellate Body Report on *United States – Standards for Reformulated and Conventional Gasoline*, adopted on 20 May 1996, WT/DS2/AB/R, p. 23.

³² Panel report WT/DS160/R.

³³ Abbreviation standing for Association of Teachers and Researchers in Intellectual Property.

³⁴ Declaration on „Balanced Interpretation of the ‘Three-step Test’ in Copyright Law” at www.law.qmul.ac.uk/events/docs/Declaration%20Three-Step%20Test.pdf.

of one of the three steps will necessarily result in a violation of Article 30 TRIPS. Though not expressly endorsing the same attitude, the subsequent Panel report WT/DS160/R, 15 June 2000 (USA – Copyright), has not distanced itself from Canada – Patents in a manner that would help to rule out further misunderstandings.

This footnote suggests that, although the copyright panel *has not endorsed the patent panel's position* ("attitude") which "*held that failure to meet the requirements of one of the three steps will necessarily result in a violation of Article 30 TRIPS*" (that is, *the three requirements are cumulative*) *it has not distanced itself from it in a helpful way.* The drafters of the Declaration probably did not have time to read the relevant part of the copyright panel's report since *one could hardly imagine fuller endorsement* for (and the absence of even the slightest intention of "distancing" from) the patent panel's position that the three conditions are *cumulative* than the copyright panel's statements already quoted above:

The three conditions apply on a cumulative basis, each being a separate and independent requirement that must be satisfied. Failure to comply with any one of the three conditions results in the Article 13 exception being disallowed. Both parties agree on the cumulative nature of the three conditions. The Panel shares their view.

The complete agreement of the two panels in this regard must not come as a surprise since no above-quoted version of the three-step test allows any other possible reading than that there are three cumulative conditions which all had to be met for an exception or limitation to be applicable. The structure of the provisions is unequivocal: an exception or limitation may *only* be applied *if it corresponds to condition [1], provided that it also corresponds to condition [2], and to condition [3].* This is the "usual description" of the structure of the test simply because the text of the treaty provisions only permits this description. Of course, legislators and courts may – and should – reach a "final overall assessment" about the applicability of an exception or limitation, but it is not allowed to them to state that an exception or limitation is also applicable in case of "failure to meet the requirements of one of the three steps".

In spite of this, the Declaration suggests nothing else but this. It states that two WTO panels and the French Supreme Court were all wrong when they "*held that failure to meet the requirements of one of the three steps will necessarily result in a violation [of the provisions on the test]*". According to this statement, it may be understood that, in view of the "declarers", the test may also be applied (i) where an exception or limitation is not limited to a special case; or (ii) it conflicts with a normal exploitation of works (patents, etc.); or (iii) it unreasonably prejudices the legitimate interests of the rightholders.

Nevertheless, although the above-quoted complaints of the Declaration about the interpretation adopted by the two WTO panels and the French Supreme Court suggests that, in general, it is wrong to reject the applicability of an exception or limitation just because it does not meet the requirement of one of the three conditions, it seems that the declarers mainly had a problem with the second condition of the test. What they truly seem to mean is that an exception or limitation should be applicable even in the case of a failure to meet the requirement of the second step; that is, where it is in conflict with a normal exploitation of works (patents, etc.). It goes without saying that the suggestion according to which it is mainly or

only one of the three conditions prescribed in the test the fulfilment of which is not needed is also in clear conflict with treaty provisions. However, considering the declarers' positions in this way may assist us to recognize what they really mean.

It seems that what they truly mean is that the three-step test should be understood, interpreted and applied in this way (let us use for this presentation an adapted version of the test provided in TRIPS Article 13):

Members, when determining whether or not a limitation or exception may be applied to an exclusive right, shall consider the following factors:

- (1) whether or not it is limited to a special case;
- (2) whether or not it conflicts with a normal exploitation of the work, and
- (3) whether or not it unreasonably prejudice a legitimate interest of the rightholder.

This version may have been in the mind of the Munich declarers. It is quite important because this is the way the four factors of fair use are provided in section 107 of the U.S. Copyright Act as those which, *inter alia*, should be considered by the court to determine whether or not a given case is covered by fair use. Under those provisions (and the underlining doctrine), even if one of the factors tells more or less against finding fair use, on the basis of other factors, it is still possible for the court to find that there is fair use.

This is, however, not the way the three conditions are provided in the above-quoted treaty provisions. The conditions of the three-step test are not *mere factors to be considered*; the three conditions *must be fulfilled* for the applicability of an exception or limitation.

The announced intention of the Munich Declaration is to suggest a "more judicious", "better balanced," "more flexible" interpretation. As it has been seen, the key element of the suggested interpretation is not interpreting and applying the three conditions as three cumulative requirements but only as factors to be taken into account in the sense that they are to be considered but not necessarily fulfilled.

Therefore, implicitly the Declaration suggests that the fair use doctrine is "more judicious", "better balanced" and "more flexible" than the three-step test. It may be the topic of a reasonable discussion whether or not the fair use system is more flexible than a closed system of exceptions and limitations (it seems it is) but it is a completely different issue. Fair use may be an alternative (although in countries without due traditions, hardly an advisable alternative) to a closed system, but it is not an alternative to the three-step test. Both a fair use system and a closed system must be in accordance with the three-step test. Those who suggest that there are cases where an exception or limitation is not be applicable under the three-step test but it is applicable in a fair use system, do not suggest less than that the law of the country of such a fair use system is not in accordance with the three-step test (and thus with the Berne Convention, the TRIPS Agreement, the WCT, etc.). However, where the fair use doctrine is applied adequately, this is not the case.³⁵

³⁵ See about this issue Mihály Ficsor: „Provisions on fair practices, fair uses and fair dealings in the draft treaty to promote availability of accessible-format copies for the visually impaired” at www.copyrightseesaw.net.

As is another – and, of course, quite significant – question whether or not it is really true that the application of the three-step test could only be made “more judicious” and “better balanced” if it were applied in a way that one of its conditions prescribed as a requirement to be fulfilled were not necessary to be fulfilled anymore (which of course is a strange suggestion in view of the poor timid principle of *pacta sunt servanda* and the provisions of Article 31 and 32 of the Vienna Treaties Convention). Two responses offer themselves to this question. The first response is that the application of the three-step test may be more judicious and better balanced than other imaginable applications that are less judicious and less balanced, but it cannot be more judicious and better balanced just because it is not applied the way provided in the treaties (since in that case we cannot speak about the application of the treaty provisions but about something else which is not in accordance with the treaty provisions). The second response is, however, more important: the three-step test may be applied in a judicious and well-balanced way even if it is applied as provided in the above-quoted provisions of the international treaties. To prove this, let us review the three conditions of the test.

7. “Judicious” and “well-balanced” application of the first condition of the three-step test: limitations and exceptions limited to certain special cases.

The copyright panel, in interpreting the first condition of the test as provided in Article 13 of the TRIPS Agreement based its finding on what it believed to be the ordinary meaning of the terms “certain” and “special.” In respect of the term “certain” it stated that its ordinary meaning is “known and particularised, but not explicitly identified”, “determined, fixed, not variable; definitive, precise, exact”³⁶ After quoting these different dictionary definitions, the panel concluded as follows:

In other words, this term means that, *under the first condition, an exception or limitation in national legislation must be clearly defined. However, there is no need to identify explicitly each and every possible situation to which the exception could apply, provided that the scope of the exception is known and particularised. This guarantees a sufficient degree of legal certainty.*³⁷ (Emphasis added.)

Then the panel turned to the term “special” and quoted from the Oxford Dictionary that it connotes “having an individual or limited application or purpose”, “containing details; precise, specific”, “exceptional in quality or degree; unusual; out of the ordinary” or “distinctive in some way”.³⁸ It deduced from this the following meaning:

This term means that *more is needed than a clear definition* in order to meet the standard of the first condition. In addition, an exception or limitation must be limited in its field of application or exceptional in its scope. In other words, *an exception or limitation should be narrow in quantitative as well as a qualitative sense.* This suggests a narrow scope as well as an exceptional or distinctive objective.³⁹ (Emphasis added.)

³⁶ Panel report WT/DS160/R, para. 6.108, quotation in the report from The New Shorter Oxford English Dictionary (hereinafter: “Oxford English Dictionary”), Oxford (1993), p. 364.

³⁷ *Ibid.*, para. 6.108.

³⁸ *Ibid.*, para. 6.109, quotation in the report; Oxford English Dictionary, p. 2971.

³⁹ *Ibid.*, para. 6.109.

After having interpreted Article 13 of the TRIPS Agreement on the basis of the Dictionary, the panel made the following remarks (footnotes left out):

As regards the parties' arguments on whether the public policy purpose of an exception is relevant, we believe that the term 'certain special cases' should not lightly be equated with 'special purpose'. *It is difficult to reconcile the wording of Article 13 with the proposition that an exception or limitation must be justified in terms of a legitimate public policy purpose* in order to fulfill the first condition of the Article.⁴⁰ (Emphasis added.)

The panel played Russian roulette with the alternatives and synonyms of the Oxford Dictionary the way it is mentioned above. It has not given sufficient explanation why it has based the interpretation of the word "certain" apparently on one of the dictionary definitions: "*determined, fixed, not variable; definitive, precise*" and why not on the other one: "*known and particularised, but not explicitly identified.*" While certain commentators⁴¹ consider the panel's interpretation as appropriate, some⁴² others⁴³ are of the opinion that *the word "certain" in front of "special cases" does not have a separate normative meaning, that it is used rather as a synonym of "some," and that only the adjective "special" is decisive* indicating both the limited and the normative, objective-based nature of the cases where exceptions and limitations may be applied.

On the basis of the latter position, it is easier to reject the allegations according to which the US "*fair use*" regulation and practice may not be in accordance with the three-step step. The basis of such allegations is the view that the US Copyright Act does not fulfill the condition of "certainty," since it does not contain a sufficiently "clear definition" as required by the above-mentioned interpretation of the WTO panel.⁴⁴ However, such kinds of doubts about the US law are not justified even on the basis of the interpretation adopted by the copyright panel since it is based on an unjustified over-stretched emphasis of an isolated element of the panel's finding: the requirement of clear definition as a criterion of "certainty." This is so, since the panel otherwise adopts a sufficiently relaxed interpretation thereof by emphasizing that "there is no need to identify explicitly each and every possible situation to which the exception could apply."

⁴⁰ *Ibid.*, para 6.111

⁴¹ See Sam Ricketson – Jane C. Ginsburg: *International Copyright and Neighboring Rights – The Berne Convention and Beyond*, Oxford University Press, 2006, at pp. 765-767.

⁴² The words "some" and "certain" are intentionally used in the sentence as quasi synonyms in order to emphasize the point made in the sentence.

⁴³ See (i) Mihály Ficsor: "Guide to the Copyright and Related Rights Convention Administered by WIPO", WIPO publication No. 891(E) (hereinafter: *New WIPO Guide*) at. 213, para. CT-10.1; (ii) Martin Senftleben: "Copyright, Limitations and the Three-Step Test", Kluwer Law International, 2004, at pp. 144 – 152; (iii) Jörg Rheinbothe – Silke von Lewinski: *The WIPO Treaties 1996 – The WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty; Commentary and Legal Analysis*, Butterworth – LexisNexis, 2002 (hereinafter: *Rheinbothe – v. Lewinski*) at p. 124; (iv) Mihály Ficsor: „How Many of What? – The 'Three-step Test' and its Application in two Recent WTO Dispute Settlement Cases," *Revue Internationale du Droit d'Auteur (R.I.D.A.)*, vol. 192, April 2002; (v) Ficsor – Oxford at pp. 284 and 516. Ricketson's previous position was the same; see Sam Ricketson: *The Berne Convention for the protection of literary and artistic works: 1886 – 1986*, Kluwer, 1987, p. 482.

⁴⁴ See n. 10, above.

There is also a *dispute in legal literature about the meaning of the adjective “special” in the term “special cases,”* in particular regarding the question of whether or not the copyright panel was right when it stressed that its finding according to which this adjective “suggests a narrow scope as well as an exceptional or distinctive objective” does not mean that the objective should be to achieve *legitimate public policy purpose*.⁴⁵ Those who disagree with this position – and the author of this paper is definitely among them – points out (i) that the very *legal-political objective* of the test is to ensure adequate balance among *legitimate interests*; (ii) that the provisions on the Berne Convention on specific exceptions – which form a relevant context of Article 9(2) on the three-step test – clearly indicate that exceptions and limitations may only be applied to the extent they correspond to *such interest-dictated special objectives*;⁴⁶ and (iii) that, in the stage of the third “step” where the fine-tuning of the scope and conditions of application of an exception or limitation takes place, the aspect of *legitimacy of interests* is also explicitly emphasized.

However, the debates on the meaning of the words “certain” and “special” is far from being the focus of the heated debate on what is the desirable and correct interpretation of the three-step test. There seems to be quite a general agreement about the correct nature of the basic statement of the panel findings, according to which the expression “certain special cases” imply “a narrow scope as well as an exceptional or distinctive objective.”⁴⁷ The differences of opinions mainly relate to certain details some of which only concern quite atypical – and sometimes hypothetical – cases of relatively marginal importance. For the reasons referred to above, it is also sufficiently clear that the “fair use” and “fair dealing” regimes of countries with common-law tradition also satisfy the condition that exceptions and limitations may only be applied in “certain special cases.”

The criticism against the present, “traditional” interpretation of the three-step test are directed rather against the second “step” of the test.

8. “Judicious” and “well-balanced” application of the second condition of the three-step test: no conflict with a normal exploitation of works (patents, etc.)

As described above, the international provisions on the three-step test contain both identical and differing elements concerning the second conditions of the three-step test. While the copyright norms uniformly provide that there must be *no conflict with a normal exploitation* of works, performances and phonograms, the industrial property provisions of the TRIPS Agreement contain the requirement of *no unreasonable conflict with the normal exploitation* of industrial designs and patents.

⁴⁵ Those who disagree with this position points out (i) that the very *legal-political objective* of the test is ensuring adequate balance of *legitimate interests*; (ii) that the provisions on the Berne Convention on specific exceptions – which form relevant context of Article 9(2) on the three-step test – clearly indicate that exceptions and limitations may only be applied to the extent they correspond to such interest-dictated special objectives; and (iii) that in the stage of the third “step” where the fine-tuning of the scope and conditions of application of an exception or limitation takes place, the aspect of legitimacy of interests is also explicitly emphasized.

⁴⁶ See Article 10(1): „provided... there extent does not exceed that justified by the purpose;” Article 10(2): „to the extent justified by the purpose;” Article 10bis(2): „to the extent justified by the inforamatory purpose.”

⁴⁷ Panel report WT/DS160/R, para. 6.109.

In 2000, first, the WTO patent panel interpreted the expression “normal exploitation” which is a common element of all the international provisions on the three-step test. The panel considered that “exploitation” refers to the commercial activity by which patent owners employ their exclusive patent rights to extract economic value from their patent. Concerning the ordinary meaning of the word “normal,” the panel referred to the dictionary definition: “regular, usual, typical, ordinary, conventional,” and stated that *the term can be understood to refer either to an empirical conclusion about what is common within a relevant community, or to a normative standard of entitlement*. The panel concluded that the word “normal” was used in Article 30 in a sense that combined the two meanings.⁴⁸

The patent panel added the following comments: “The normal practice of exploitation by patent owners, as with owners of any other intellectual property right, is to exclude all forms of competition that could detract *significantly* from the economic returns anticipated from a patent's grant of exclusivity.”⁴⁹ (Emphasis added.)

It might have been interesting to see how the panel would have interpreted the adverb “unreasonably” in front of the term “the normal exploitation,” but the panel report stated that, in the given case, it was not necessary to take a position concerning the disputed issues.⁵⁰ Since the Munich Declaration deals with the application of the three-step test from the viewpoint of copyright, it does not seem necessary to elaborate here on the specificities of this aspect of the TRIPS Article 30 version of the test.

As regards the concept of “normal exploitation” as the common element of the second condition of each of the various TRIPS provisions, it did not come as a surprise that *the WTO copyright panel adopted similar interpretation four months later*. The copyright panel, however, *also clarified certain further details*; in particular that, where the issue is the exploitation of an exclusive right, the criterion of normalcy should be considered in regard the exploitation of the exclusive right concerned (taking into account that the transformation of an exclusive right to a mere right to remuneration is a limitation itself). Furthermore, the copyright panel *made it even clearer* an aspect that was implied by the patent panel; namely *that this second condition of the step is both of an empirical and of a normative nature*:

The ordinary meaning of the term “exploit” connotes “making use of” or “utilising for one's own ends”.⁵¹ We believe that ‘exploitation’ of musical works thus refers to the

⁴⁸ Panel report WT/DS114/R, para. 7.54.

⁴⁹ Panel report WT/DS114/R, para. 7.55.

⁵⁰ The panel has opted for an “economic” approach; it did not interpret any terms that it did not regard as necessary for its findings regarding the dispute. Two issues were involved in the dispute. In the case of the first one, the panel found that the relevant provisions of the Canadian law (on “stockpiling” before the expiry of the patent term) went beyond what could have still been regarded as a “limited exception” (that is what would have still been in accordance with the first condition of the three-step test under TRIPS Article 30). In the second case, the panel reached the conclusion that the exception under the relevant provision of the Canadian law (for market approval procedures of would-be generic pharmaceutical products during the term of protection of the patent) was not only of a limited nature but did not even conflict with the normal exploitation of the patents concerned), and stated as follows: “The fact that no conflict has been found makes it unnecessary to consider the question of whether, if a conflict were found, the conflict would be ‘unreasonable.’” (Panel report WT/DS114/R, para. 7.59.)

⁵¹ Panel report WT/DS160/R, para. 6.166, quotation in the report from Oxford English Dictionary, p. 1940.

activity by which copyright owners employ the exclusive rights conferred on them to extract economic value from their rights to those works.

...We note that the ordinary meaning of the term “normal” can be defined as “constituting or conforming to a type or standard; regular, usual, typical, ordinary, conventional ...”⁵² In our opinion, *these definitions appear to reflect two connotations: the first one appears to be of an empirical nature, i.e., what is regular, usual, typical or ordinary. The other one reflects a somewhat more normative, if not dynamic, approach, i.e., conforming to a type or standard.*⁵³ (Emphasis added.)

The copyright panel took duly into account the preparatory work of Berne Article 9(2) and found a “persuasive guidance” in the statements of the Study Group set up for the preparation of the 1967 Stockholm revision conference, which suggested “[to] limit the recognition and the exercising of that right, for specified purposes and on the condition that these purposes *should not enter into economic competition with these works*” in the sense that “*all forms of exploiting a work, which have, or likely to acquire, considerable economic or practical importance, must be reserved to the authors.*”⁵⁴ (Emphasis added.)

Under the interpretation of the two WTO panels “normal exploitation” does not extend to no matter what kinds of exploitation of works. However, it *does extend to any forms of exploitation which have, or likely to acquire, considerable economic or practical importance, and an exception or limitation is to be regarded to conflict with such exploitation – and therefore not allowed under this condition of the three-step test – if it entered into economic competition with it.*

The WTO copyright panel has summarized the interpretation of the second criterion of the test as follows:

We believe that an exception or limitation to an exclusive right in domestic legislation rises to the level of a conflict with a normal exploitation of the work (i.e., the copyright or rather the whole bundle of exclusive rights conferred by the ownership of the copyright), *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 (i.e., the copyright) and thereby deprive them of significant or tangible commercial gains.*⁵⁵ (Emphasis added.)

The authoritative commentaries on the Berne Convention⁵⁶ and the WIPO Internet Treaties⁵⁷ offer the same interpretation as what the WTO panels have adopted under the TRIPS Agreement.

⁵² *Ibid.*, para. 6.166, quotation in the report from Oxford English Dictionary, p. 1940.

⁵³ *Ibid.*, paras 6.165-6.166.

⁵⁴ „Records of The International Property Conference of Stockholm (1967)”, WIPO publication, 1971 (hereinafter: Stockholm records), at p. 112.

⁵⁵ Panel report WT/DS160/R report, para. 6.183.

⁵⁶ See *New WIPO Guide* (to the Berne Convention) pp. 58-59 („all forms of exploiting a work which had or likely to acquire, considerable economic or public importance must be reserved to the authors;” [exceptions] „must not enter into economic competition with works”).

Otherwise, it is not only on the basis of the structure and text of the treaty provisions is obvious that the idea suggested in the Munich Declaration that the non-fulfilment of the condition of “no conflict with a normal exploitation of the work” (or another condition of the test) is not necessarily an obstacle to the application of an exception or limitation is unacceptable. This is also explicitly confirmed in an agreed statement adopted at the Stockholm Diplomatic Conference, the “author” of the first provision on the three-step test in Article 9(2): “If it is considered that reproduction does not conflict with the normal exploitation of the work, the next step would be to consider whether it does not unreasonably prejudice the legitimate interests of the author. Only if such is not the case would it be possible in certain special cases to introduce a compulsory license, or to provide for use without payment.”⁵⁸

9. “Judicious” and “well-balanced” interpretation of the third condition of the test: no unreasonably prejudice to the legitimate interests of rightholders

As it is mentioned above, the international copyright norms, on the one hand, and the TRIPS provisions concerning patents, on the other, with one exception, contain the same criteria in the case of the third “step” of the three-step test; namely that an exception or limitation *must not unreasonably prejudice the legitimate interests of owners of rights*. Article 30 of the TRIPS Agreement on exceptions to patent rights only differ in that the following phrase is also added to this condition: “taking account of the legitimate interests of third parties.”

It is submitted that the addition of this phrase rather consists in the clarification of something that also follows from an appropriate interpretation of the copyright provisions; namely that, in the application of the third “step,” the question of whether or not a possible prejudice to the legitimate interests of owners of rights is still reasonable may only be answered adequately if it takes place on the basis of due balancing with other’s (third parties’ – including the society’s in large) interests.⁵⁹

⁵⁷ See *New WIPO Guide* (to the WCT), p. 213 (“all forms of exploiting a work (that is, extracting value of the exclusive right of reproduction in the work through exercising it) which has, or is likely to acquire, considerable economic or practical importance, must be reserved to the owner of this right;” “exceptions or limitations must not enter into economic competition with the exercise of the right... by the rights owner (in the sense that it must not undermine the market for the work in any way whatsoever)); *Rheinbothe – v. Lewinski*, pp. 125-127 (also noting that “[w]idening the analysis to the effect of the exception on the exploitation of the work as a whole based on several rights would deviate from the wording and the spirit of the requirement;” “[i]t would open the door to ‘compensating’ for too far-reaching exceptions to a particular exclusive right by the assessment that the author should rather focus on other rights to achieve ‘normal exploitation’ of his work). See also *Ficsor - Oxford*, pp. 284-286 („all forms of exploiting a work which had or likely to acquire, considerable economic or public importance must in principle be reserved to the authors; exceptions that might restrict the possibilities open to the authors in these respects were unacceptable;” “[exceptions] „must not enter into economic competition with works”);

⁵⁸ *Stockholm records*, at pp. 1145-1146, para 85.

⁵⁹ The patent panel did not address the issue of what impact, if any, the reference in Article 30 to the legitimate interests of third parties might have on the interpretation of Article 13 where there is no such reference. In fact, the patent panel did not even deal with the question of how third party interests might be taken into account from the viewpoint of whether the exceptions involved unreasonably prejudice the legitimate interests of the owners of patent rights, since it found that, in the given case, the latter did not have any legitimate interests involved; see panel report WT/DS116/R, paras 7.73 and 7.83.

The WTO copyright panel interpreted the third “step” on the basis of the dictionary definitions of the key terms; in particular the adjectives “legitimate,” and “unreasonable” (since they required the greatest attention from the viewpoint of balancing of interests).

The panel has judged the concept of legitimacy of the interests of owners of rights *both from a “legal positivist” perspective* (an interest recognized and protected by law), *and “a more normative perspective*, in the context of calling for the protection of interests that are justifiable in the light of objectives that underlie the protection of exclusive rights.”⁶⁰

It has found that *a prejudice is to be regarded “unreasonable” “if an exception or limitation causes or has the potential to cause an unreasonable loss of income to the copyright owner.”*⁶¹ At the same time, the panel also stated that the unreasonable nature of a prejudice may be eliminated in those cases “where there would be a serious loss of profit for the copyright owner,” but where “the law... provide[s] him with some compensation.”⁶²

It should be stressed, however, that according to the panel report, *such compensation may only make an exception or limitation acceptable from the viewpoint of the third “step.” It is not suitable to do the same in respect of the second “step.”* If an exception or limitation were in conflict with a normal exploitation of an exclusive right, the conflict could not be eliminated by transforming the exclusive right into a mere right to remuneration (in such a case, the acts covered could be performed without the authorization of the owners of rights, and since a normal exploitation of an exclusive right consists exactly in the right of authorization or prohibition of such acts, it would be anachronistic to speak about restoring the chance for such a normal exploitation).

The leading commentaries seem to agree with the essence of the above-outlined interpretation of the third condition of the three-step test adopted by the copyright panel concerning Article 13 in respect of both the Berne Convention⁶³ and the WIPO Internet Treaties.⁶⁴

⁶⁰ Panel report WT/DS160/R, para. 6.224.

⁶¹ *Ibid.*, 6.229.

⁶² *Ibid.*, original note 205 to para. 6.229: In respect of what could be the dividing line between “unreasonable” and “not unreasonable” prejudice, we consider the explanation of the Guide to the Berne Convention to be of persuasive value. It states in the context of the third condition of Article 9(2) of the Berne Convention, which is worded almost identically to Article 13 of the TRIPS Agreement but refers to exceptions to the reproduction right: “Note that it is not a question of prejudice or no: all copying is damaging to some degree ...”. The paragraph goes on to discuss whether photocopying “prejudices the circulation of the review”, whether it “might seriously cut in on its sales” and says that “[i]n cases where there would be serious loss of profit for the copyright owner, the law should provide him with some compensation (a system of compulsory licensing with equitable remuneration).” See the [Old] Guide to the Berne Convention, paragraph 9.8.pp. 55-56. We do not believe that in this respect the benchmark has to be substantially different for reproduction rights, performance rights or broadcasting rights in the meanings of Articles 9, 11 or 11*bis* of the Berne Convention (1971).

⁶³ See the preceding note (which refers to the [Old] Guide to the Berne Convention by Claude Masouyé; WIPO publication No. 615(E), 1978); also *New WIPO Guide* (of 2003 to the Berne Convention) at pp. 59-60 (which, similarly to the Old Guide emphasizes the legal positivist aspect of legitimacy of interests).

⁶⁴ See *New WIPO Guide* (to the WCT), p. 213 („Legitimate interests means ‘legal interests’ in the sense that it is in the interests of the owner of rights to enjoy and exercise the right of reproduction as fully as possible. An exception or limitation – inevitably, ‘by definition’ – prejudices these kinds of legitimate interests, but such prejudice is allowed to occur in certain special cases not conflicting with any normal exploitation of the work; it

10. “Judicious” and “well-balanced” interpretation of the three-step test: development considerations and other “externalities”

The application of the three-step test by the WTO panels has also made it clear that the test may be applied in a “judicious” and “well-balanced” way also in the sense that it is suitable to duly take into account development considerations and may also absorb other so-called “externalities”.

It has been clarified in the report of the patent panel that Articles 7 and 8 of the TRIPS Agreement on “Objectives” and “Principles” *should be taken into account* for the application of the three-step test and they may justify allowing certain exceptions and limitations in certain cases and in a certain manner in accordance with the three conditions of the test. However, it also has been made clear that, where they are duly taken into account for the application of the test, *it would not be appropriate to try to take them into account once more as some kind of further external criteria.*

Articles 7 and 8 read as follows:

Article 7. Objectives

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

Article 8. Principles

1. *Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this Agreement.*

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

In the relevant part of the patent panels’ report, the questions of application of these provisions were discussed in the following way:

must be, however, reasonable in the sense that it must not go beyond a certain level of prejudice which may still be justified in consideration of the underlining special and well-founded public policy considerations.”); *Rheinbothe – von Lewinski*, pp. 126-127 („[I]n general, the author’s legitimate interests is the possibility of getting an appropriate economic return for his or her rights... Limiting an exclusive right to a right to remuneration may call into question [the] basic bargaining position of the author and may result in unreasonable prejudice. Such a limitation of an exclusive right should, therefore, only be justified in exceptional cases.”) See also *Ficsor – Oxford*, pp. 286-288 (reflecting practically the same position as the New WIPO Guide).

7.24 In the view of *Canada*,... Article 7 above declares that one of the key goals of the TRIPS Agreement was a balance between the intellectual property rights created by the Agreement and other important socio-economic policies of WTO Member governments. Article 8 elaborates the socio-economic policies in question, with particular attention to health and nutritional policies. With respect to patent rights, Canada argued, *these purposes call for a liberal interpretation of the three conditions stated in Article 30 of the Agreement, so that governments would have the necessary flexibility to adjust patent rights to maintain the desired balance with other important national policies.*

7.25 The EC did not dispute the stated goal of achieving a balance within the intellectual property rights system between important national policies. But, *in the view of the EC, Articles 7 and 8 are statements that describe the balancing of goals that had already taken place in negotiating the final texts of the TRIPS Agreement. According to the EC, to view Article 30 as an authorization for governments to "renegotiate" the overall balance of the Agreement would involve a double counting of such socio-economic policies.* In particular, the EC pointed to the last phrase of Article 8.1 requiring that government measures to protect important socio-economic policies be consistent with the obligations of the TRIPS Agreement. The EC also referred to the provisions of first consideration of the Preamble and Article 1.1 as demonstrating that the basic purpose of the TRIPS Agreement was to lay down minimum requirements for the protection and enforcement of intellectual property rights.

7.26 *In the Panel's view, Article 30's very existence amounts to a recognition that the definition of patent rights contained in Article 28 would need certain adjustments. On the other hand, the three limiting conditions attached to Article 30 testify strongly that the negotiators of the Agreement did not intend Article 30 to bring about what would be equivalent to a renegotiation of the basic balance of the Agreement. Obviously, the exact scope of Article 30's authority will depend on the specific meaning given to its limiting conditions. The words of those conditions must be examined with particular care on this point. Both the goals and the limitations stated in Articles 7 and 8.1 must obviously be borne in mind when doing so as well as those of other provisions of the TRIPS Agreement which indicate its object and purposes."*⁶⁵ (Emphasis added.)

It is submitted that the same may apply as regards other possible so-called "externalities," such as human rights considerations, protection of privacy and personal data, competition aspects and the like. They may and should be taken into account within the framework of the application of the three-step test on the basis of the above-described normative interpretation of the three criteria.

[End of paper]

⁶⁵ Panel report WT/DS114/R.

