

## **CANADA – TERM OF PATENT PROTECTION**

### ***Report of the Panel***

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Note by the Secretariat: This Panel Report shall be adopted by the Dispute Settlement Body (DSB) within 60 days after the date of its circulation unless a party to the dispute decides to appeal or the DSB decides by consensus not to adopt the report. If the Panel Report is appealed to the Appellate Body, it shall not be considered for adoption by the DSB until after the completion of the appeal. Information on the current status of the Panel Report is available from the WTO Secretariat.



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**Note: The Exhibits to the attachments may be inspected at the WTO Secretariat.**

## I. INTRODUCTION

1.1 On 6 May 1999, the United States requested consultations with Canada pursuant to Article 4 of the *Understanding on Rules and Procedures Governing the Settlement of Disputes* (the "*DSU*") and, to the extent that it incorporates by reference Article XXII of the General Agreement on Tariffs and Trade 1994, Article 64 of the *Agreement on Trade-Related Aspects of Intellectual Property Rights* (the "*Agreement*", "*TRIPS*" or the "*TRIPS Agreement*") regarding the term of protection granted to patents that were filed before 1 October 1989 in Canada.<sup>1</sup> The United States and Canada held consultations on 11 June 1999 in Geneva but failed to reach a mutually satisfactory solution to the dispute.

1.2 In a communication dated 15 July 1999, the United States requested the Dispute Settlement Body (the "*DSB*") to establish a panel under Article 6.2 of the *DSU*.<sup>2</sup> Specifically, the United States alleged that the *TRIPS Agreement* requires Members to grant a minimum term of protection to all patents existing as of the date of application of the Agreement and that Canada has been obligated to apply the provisions of the *TRIPS Agreement* since 1 January 1996. The United States alleged that Canada's *Patent Act* provides that the term granted to patents issued on the basis of applications filed before 1 October 1989 is 17 years from the date on which the patent is issued and that granting of such term of protection is inconsistent with Canada's obligations under Articles 33 and 70 of the *TRIPS Agreement*.

1.3 At its meeting on 22 September 1999, the DSB established a Panel in accordance with Article 6 of the *DSU* with the following standard terms of reference:

"To examine, in light of the relevant provisions of the covered agreements cited by the United States in document WT/DS170/2, the matter referred to the DSB by the United States in that document and to make such findings as will assist the DSB in making the recommendations or in giving the rulings provided for in those agreements."<sup>3</sup>

1.4 On 13 October 1999, the United States made a request, pursuant to paragraph 7 of Article 8 of the *DSU*, to the Director-General to determine the composition of the Panel. On 22 October 1999, the Director-General composed the Panel as follows:

Chairman: Mr. Stuart Harbinson  
  
Members: Mr. Sergio Escudero  
  
Mr. Alberto Heimler

1.5 On 22 October 1999, the United States submitted a request for expedited consideration of the dispute under Article 4.9 of the *DSU* on the grounds that premature expiration of patents during the dispute settlement procedure caused irreparable harm to the patent owners. It referred to the alleged simplicity of the issues in dispute, the absence of third parties and other circumstances. At the organizational meeting held on 25 October 1999, the United States offered to file its first submission immediately and requested that Canada be required to file its first submission two weeks thereafter. Canada opposed this request. The Panel indicated that due to other demands on its members' time, it could not accelerate the timetable prior to the first substantive meeting. In response, the United States proposed that each party file both first and rebuttal submissions prior to the first substantive meeting in order to expedite the proceedings. After the meeting, Canada opposed this proposal on the basis that it would not give the parties adequate time to prepare their submissions properly, although it did

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<sup>1</sup> WT/DS170/1; IP/D17, 10 May 1999.

<sup>2</sup> WT/DS170/2, 15 July 1999.

<sup>3</sup> WT/DS170/3, 25 October 1999.

not object to a timetable which followed the minimum periods suggested in Appendix 3 to the *DSU*. On 29 October 1999 the Panel fixed its timetable based on those minimum periods and undertook to make every effort to issue its report as soon as possible after the second substantive meeting.

1.6 The first substantive meeting of the Panel with the parties took place on 20 December 1999 and the second substantive meeting with the parties took place on 25 January 2000.

1.7 The Panel issued its interim report to the parties on 3 March 2000. On 10 March 2000, both parties submitted written requests for the Panel to review precise aspects of the interim report. On 15 March 2000, Canada submitted a reply to the request submitted by the United States. No further meeting with the Panel was requested.

1.8 The Panel submitted its final report to the parties on 31 March 2000.

## II. FACTUAL ASPECTS

2.1 The measure in dispute is Section 45 of Canada's *Patent Act*<sup>4</sup> which the United States claims is in violation of Articles 33 and 70 of the *TRIPS Agreement*. For the purpose of the context of this dispute, Sections 44 and 45 of Canada's *Patent Act* are reproduced:

"44. Subject to section 46<sup>5</sup>, where an application for a patent is filed under this Act on or after October 1, 1989, the term limited for the duration of the patent is twenty years from the filing date.

45. Subject to section 46, the term limited for the duration of every patent issued under this Act on the basis of an application filed before October 1, 1989 is seventeen years from the date on which the patent is issued."

2.2 The substance of Section 45 was, together with a large number of other proposed amendments to the *Patent Act*, first introduced in Parliament on 6 November 1986 in Bill C-22. Although still more commonly referred to as Bill C-22, the Bill was enacted and became law under the title of *An Act to amend the Patent Act and to provide for certain matters in relation thereto*<sup>6</sup> (variously referred to as "Bill C-22" or the "Bill") on 17 November 1987.

2.3 However, for a variety of reasons associated with the need to devise and draft complementary regulations, to attend to other transitional issues as well as to give the intellectual property community time to adjust to the new system, most of the "modernizing" amendments, including the amendments relating to the term of protection, were not brought into force until 1 October 1989.

2.4 The reference in Sections 44 and 45 to a threshold application date served some of the transitional purposes required to effect the change from a system using a "seventeen year from grant" term to another using a "twenty year from filing" term. It did not, however, provide a mechanism for converting from one system to the other. In light of this fact, Bill C-22 included an additional transitional provision that specified the law that would apply to pre-threshold date applications. The rule was set out in Section 27 of the Bill and provided that:

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<sup>4</sup> Canadian *Patent Act*, R.S.C., ch. P-4, Section 45 (1985).

<sup>5</sup> Section 46 states:

"(1) A patentee of a patent issued by the Patent Office under this Act after the coming into force of this section shall, to maintain the rights accorded by the patent, pay to the Commissioner such fees, in respect of such periods, as may be prescribed.

(2) Where the fees payable under subsection (1) are not paid within the time provided by the regulations, the term limited for the duration of the patent shall be deemed to have expired at the end of that time."

<sup>6</sup> S.C. 1987, ch. 41, ss. 46, 47. Reproduced in relevant part in Canada Exhibit 3.

"27. Applications for patents filed before the coming into force of the provisions of this Act referred to in subsection 33(1) [which included the seventeen year term provision] shall be dealt with and disposed of in accordance with the *Patent Act* as it read immediately before the coming into force of those provisions."<sup>7</sup>

2.5 The law applicable to such applications is generally referred to as the "Old Act". Patents granted on the basis of applications filed before 1 October 1989, whose term is provided for in Section 45, are referred to as "Old Act patents". Patents granted on the basis of applications filed on or after 1 October 1989, whose term is provided for in Section 44, are referred to as "New Act patents".

2.6 During the consultations and proceedings, Canada provided statistics from its Patent Office which the United States did not contest. An examination of the records of the Canadian Patent Office relating to patents issued against applications filed prior to 1 October 1989 and that still existed when the *TRIPS Agreement* took effect in Canada indicates that, as of 1 October 1996<sup>8</sup>, 142,494 or just over 60 per cent of the Old Act patents then in existence (236,431) had terms that would not, assuming that annual maintenance fees were paid, expire until, or until well after, the expiry of the 20-year period following their application dates. In a very large number of these cases, the expiry dates will be two to five years after the expiry of the 20-year period.

2.7 As of 1 October 1996, 93,937 or just under 40 per cent of the Old Act patents then in existence had terms that would, assuming the payment of annual maintenance fees, expire in less than the 20-year period measured from their application dates. In 84 per cent of these cases, the patent would expire in the course of the nineteenth year following the application date. In these "nineteenth" year expiry cases, 52 per cent would expire in the last half of the year, while the remaining 32 per cent would expire in the first half.

2.8 A supplementary examination of the records of the Patent Office, but one conducted in relation to Old Act patents which would still be in force on 1 January 2000, revealed a similar result. Thus, of the 169,966 Old Act patents that would, subject to the continued payment of annual maintenance fees, then still be in existence, 103,030 or just over 60 per cent will not expire until, or until well after, the expiry of the 20-year period following their respective application dates.

2.9 Correlatively, 66,936 or just under 40 per cent of the Old Act patents still in force on 1 January 2000 will, again subject to the payment of the annual maintenance fees, expire in less than 20 years measured from their respective application dates. In 77 per cent of these cases, the patent will expire in the course of the nineteenth year following the application date. In these "nineteenth" year expiry cases, 55 per cent will expire in the last half of the year, while the remaining 22 per cent will expire in the first half.

2.10 An examination of the records of the Canadian Patent Office relating to applications filed in Canada on or after 1 October 1989 reveals that, as of 1 November 1999, there have been 285,678 New Act applications filed since the New Act came into force. Of these New Act applications, 125,406 (approximately 43 per cent) have, since filing, requested examination. On average the period between the date of filing and the date of the request for examination for these 125,406 applications has been 27½ months.

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<sup>7</sup> Canada Exhibit 3. Clause 27 of the Bill became Section 27 when enacted as part of the amending Act.

<sup>8</sup> For reasons related to application filing date data entry problems, the date used for the examination was actually 1 October 1996. However, given the number of patents issued in Canada on an annual basis, Canada is satisfied that the 1 October 1996 statistics are a reliable surrogate for the statistics that would have been applicable on 1 January 1996 had the data been available. See Canada Exhibit 8, paras. 13 and 15.

2.11 The same exercise, when focussed on patents that have actually been issued against New Act applications, reveals that 40,847 New Act patents have been issued by the Patent Office since the coming into force date of the New Act on 1 October 1989. The average pendency period, namely the period between the application filing date and the date of grant, for this subset of New Act applications which have been processed through to grant has been approximately 60 months, or five years.<sup>9</sup>

### III. FINDINGS AND RECOMMENDATIONS REQUESTED

3.1 The United States requests that, since a large number of existing Old Act patents expire before 20 years from the date of filing, the Panel find that Canada is in violation of Articles 33 and 70 of the *TRIPS Agreement* and recommend that Canada bring its measures into conformity with its obligations under the *TRIPS Agreement*.

3.2 Canada requests that the Panel find that:

- (i) the term of patent protection available under Section 45 of Canada's *Patent Act* is equivalent or superior to, and is consistent and in conformity with, the term of patent protection described by Article 33;
- (ii) the minimum term of protection described by Article 33 is and has been available, without exception, under the Canadian law and practice relating to Old Act patents;
- (iii) by virtue of paragraph 1 of Article 70, Article 33 does not have retroactive application to patents granted by the Commissioner of Patents prior to 1 January 1996; and,

on the basis of those findings, conclude that Section 45 of Canada's *Patent Act* conforms with its obligations under the *TRIPS Agreement*.

### IV. ARGUMENTS OF THE PARTIES

4.1 The arguments of the parties are provided for in their submissions to the Panel (see Attachments 1.1 through 1.7 for the United States and 2.1 through 2.6 for Canada).

### V. INTERIM REVIEW

5.1 On 10 March 2000, the United States and Canada requested the Panel to review, in accordance with Article 15.2 of the *DSU*, certain aspects of the interim report that had been transmitted to the parties on 3 March 2000. The United States did not request an Interim Review meeting but reserved the right to make comments on any changes suggested by Canada. Canada requested that it be provided with an opportunity to make written comments on changes proposed by the United States and that in the event such an opportunity to respond in writing not be provided, it reserved its right to request a further meeting with the Panel to discuss the matter at issue.

5.2 We reviewed the comments and arguments presented by the parties and finalized our report, incorporating those comments that we considered justified. To this end, we made a change to paragraph 6.63 to characterize more accurately Canada's argument and paragraph 6.105 to reflect

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<sup>9</sup> The 60-month total has three components. Its first component involves the period of time between the filing date and the date on which the applicant makes the request and pays the fee for "examination". On average the delay between these two dates has, over the last ten years, been approximately 15 months. Subject to the applicant asking that its application be advanced in the queue and the payment of maintenance fees, the second component involves the time spent waiting in the queue for an available examiner. Over the last ten years, the queue has averaged approximately 24 months. The last component involves the time spent in "examination" itself this period has averaged approximately 20 months.



more accurately the relevant Canadian provision. We also made minor typographical and syntactical corrections.

5.3 The United States submits that our finding contained in footnote 48 that actions of six developed country Members to amend their laws to comply with Article 33 of the *TRIPS Agreement* do not constitute "subsequent practice" is incorrect because only seven developed country Members needed to change their laws to provide a term of protection that does not end before 20 years from the date of filing. According to the United States, of those seven Members, six amended their laws and Canada is the sole exception. The United States reiterates that "other WTO Members did not amend their law for the simple reason that they were already in compliance". The United States argues that, since Canada did not contest these facts, they sufficiently establish "subsequent practice" in the application of the *TRIPS Agreement*.

5.4 Canada agrees with our conclusion but for different reasons. Canada notes that each Member referred to by the United States had a term of protection different from those of Canada. Canada contends that each instance of amendment was an isolated act of the Member responding to the particular factual circumstances prevailing in its own jurisdiction and that the fact that several Members determined that they had a similar, but distinct, need to amend their laws does not change the "isolated act" character of their various legislative responses to the problem. Canada states that several Members doing similar things for dissimilar reasons does not constitute a "practice". Therefore, Canada argues that the fact that other Members amended their laws to comply with Article 33 obligations has no evidentiary relevance or value in making an analogous determination in respect of Canada's term of protection provisions or its alleged need to amend them. Canada adds that the fact that it did not contest the "facts" of amendment and non-amendment says nothing about Canada's position in respect of the conclusion that the United States seeks to draw from the "facts".

5.5 We wish first to emphasize that we did not make a finding that there is no "subsequent practice". Rather, we stated in footnote 48 that there is insufficient evidence before us to make a determination as to whether there is a "concordant, common and consistent" sequence of acts to sufficiently establish a "discernable pattern implying the agreement of the parties" in respect of making available a term of protection as required by Article 33 of the *TRIPS Agreement* on the basis of the practice of only six Members. However, upon further consideration of this matter, we do not consider it necessary to make a finding as to whether there is "subsequent practice" to determine the requirement under Article 33 of the *TRIPS Agreement* and to ascertain whether Section 45 of Canada's *Patent Act* is in conformity with Article 33. We have therefore made the necessary changes in footnote 48 to reflect our view.

## **VI. FINDINGS**

### **A. PRELIMINARY MATTERS**

#### **1. Issues to be addressed by the Panel**

6.1 In this section, we briefly summarize our understanding of each party's claims and defences.

6.2 The United States challenges Section 45 of Canada's *Patent Act* on the basis that the patent protection term of 17 years from the date of grant for those patent applications that were filed before 1 October 1989 often ends before 20 years from the date of filing. The United States argues that pursuant to Articles 33 and 70.2 of the *TRIPS Agreement*, Canada was obligated to make available a term of protection that does not end before 20 years from the date of filing to all inventions which enjoyed patent protection on 1 January 1996, including those protected by Old Act patents, since inventions enjoying protection under Old Act patents were existing "subject matter" which were protected on the date of application of the *TRIPS Agreement*.

6.3 Canada argues that Section 45 of its *Patent Act* is in conformity with Article 33 of the *TRIPS Agreement*. Canada supports its view that Section 45 is in conformity with Article 33 on the ground that the term of the "exclusive privilege and property rights" available under Section 45 is equivalent or superior to the "exclusive privilege and property rights" conferred by a patent in which the term of protection does not end before 20 years from the date of filing. Canada adds that Section 45 does not require that the term of protection end before the expiry of 20 years from the date of filing.

6.4 In addition, Canada argues that Section 45 did make "available" a term of protection that does not end before 20 years from the date of filing. Canada points out that Old Act applicants could resort to informal or statutory delays to slow down the patent prosecution process so as to obtain a term of protection that does not end before 20 years from the date of filing and that such requests were never denied although the patent examiner and Commissioner of Patents had the discretion not to grant the requested delays.

6.5 Independently from its arguments concerning equivalence and availability, Canada initially argued that since Old Act patents were granted pursuant to an administrative "act" of the Commissioner of Patents, Canada was not required to provide *TRIPS* obligations pursuant to Article 70.1. Canada later states that its interpretation of Article 70.1 to exclude Old Act patents from the obligations under Article 33 did not mean that other obligations such as those set out in Articles 28 and 31(h) of the *TRIPS Agreement* did not apply to patentable "subject matter" as the term is used in Article 70.2.

6.6 We deduce from the arguments of the parties that this dispute only concerns those Canadian patents that fulfil all of the following criteria:

- (i) patents for which applications were filed before 1 October 1989;
- (ii) Old Act patents which were granted less than three years after the date of filing the application. This necessarily excludes all Old Act patents granted after 1 October 1992; and
- (iii) Old Act patents which were in force on 1 January 1996, the date of application of the *TRIPS Agreement* in Canada, and which are still in force. This necessarily excludes all patents granted before 1 January 1979, as their maximum 17-year term would have expired.

This dispute does not concern Old Act applications pending on the date of application of the *TRIPS Agreement* in Canada as these would not fulfil criterion (b).

6.7 Based on the claims and defences raised by the parties, we will address the substantive issues in the following order:

- (i) first, we will consider whether there is an obligation to apply the rules of the *TRIPS Agreement* to inventions protected by Old Act patents. This first hinges on the question whether existing "subject matter...which is protected", as the expression is used in Article 70.2 of the *TRIPS Agreement*, includes inventions protected by Old Act patents that were in force on the date of application of the *TRIPS Agreement* in Canada. Subsequently, we evaluate Canada's argument that Article 70.1, not Article 70.2, is the relevant provision and, even if Article 70.2 does generally apply, that Canada is not required to apply the obligation set out in Article 33 to such Old Act patents; and
- (ii) we will then consider whether Section 45 of Canada's *Patent Act* is in conformity with Article 33 of the *TRIPS Agreement* and evaluate Canada's arguments that it is in conformity, first on the basis that the terms of "effective" protection or "exclusive

privilege and property rights" made available under Section 45 is equivalent or superior to the term of protection available under Article 33, and second on the basis that it makes "available" a term of protection that does not end before 20 years from the date of filing.

## 2. Burden of proof

6.8 Before reviewing the substantive issues, we need to address the issue of burden of proof, as Canada argued that the United States was required to establish a *prima facie* case that Article 70.2 applied to the "acts" of filing an application and issuing patents that occurred before the date of application of the *TRIPS Agreement*.<sup>10</sup>

6.9 The Appellate Body stated in *United States—Measures Affecting Imports of Woven Wool Shirts and Blouses from India* that:

"...the burden of proof rests upon the party, whether complaining or defending, who asserts the affirmative of a particular claim or defence. If that party adduces evidence sufficient to raise a presumption that what is claimed is true, the burden then shifts to the other party, who will fail unless it adduces sufficient evidence to rebut the presumption."<sup>11</sup>

6.10 Pursuant to the rule established by the Appellate Body, the initial burden lies with the United States to establish a *prima facie* case of inconsistency with a particular provision of the *TRIPS Agreement* by adducing sufficient evidence to raise a presumption that its claims are true. Upon establishing a *prima facie* case of inconsistency, the burden shifts to Canada which must refute the claim of inconsistency. Our analysis of the issues before us is based on this approach.

6.11 Canada also refers to Article 28 of the *Vienna Convention on the Law of Treaties* (the "*Vienna Convention*")<sup>12</sup> under which there is a codified presumption against the retroactive application of treaty obligations which applies "unless a different intention appears from the treaty or is otherwise established". Canada contends that the United States has the burden of proving such a different intention with respect to its interpretation of Article 70. Canada's contention first requires a finding that Article 70 has retroactive application, which we will consider below.

## 3. Rules of interpretation

6.12 Along with agreements governing trade in goods and services, protection of intellectual property rights as encapsulated in the *TRIPS Agreement* constitutes an integral part of the *Marrakesh Agreement Establishing the World Trade Organization* (the "WTO Agreement"). As such, the *TRIPS Agreement* is one of the "covered agreements" and is therefore subject to the *DSU*.<sup>13</sup> Article 3.2 of the *DSU* provides that panels are to clarify the provisions of "covered agreements" in accordance with customary rules of interpretation of public international law.

6.13 In *United States — Standards for Reformulated and Conventional Gasoline* ("*United States – Gasoline*"), the Appellate Body stated that the fundamental rule of treaty interpretation as set out in Articles 31 and 32 of the *Vienna Convention* had "attained the status of a rule of customary or general international law".<sup>14</sup> Pursuant to Article 31(1) of the *Vienna Convention*, the duty of a treaty

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<sup>10</sup> Canada's First Submission, para. 128; Canada's Response to Panel Question 23.

<sup>11</sup> WT/DS33/AB/R, adopted 23 May 1997, p. 14.

<sup>12</sup> *Vienna Convention on the Law of Treaties*, done at Vienna, 23 May 1969, 1155 U.N.T.S. 331; (1969) 8 International Legal Materials 679.

<sup>13</sup> Appellate Body Report, *India - Patent Protection for Pharmaceutical and Agricultural Chemical Products* ("*India – Patents*"), WT/DS50/AB/R, adopted 16 January 1998, para. 29.

<sup>14</sup> WT/DS2/AB/R, adopted 20 May 1996, p. 17. See also Appellate Body Report, *Japan - Taxes on Alcoholic Beverages* ("*Japan - Alcoholic Beverages*"), WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R,

interpreter is to determine the meaning of a term in accordance with the ordinary meaning to be given to the term in its context and in light of its object and purpose. We will apply the principles enunciated by the Appellate Body in the *United States — Gasoline* to interpret the relevant provisions of the *TRIPS Agreement* throughout the Report.

B. APPLICABILITY OF ARTICLE 70.2 OF THE *TRIPS AGREEMENT* TO INVENTIONS PROTECTED BY OLD ACT PATENTS

1. Arguments of the parties

6.14 The **United States** construes Article 70.2 to mean that the *TRIPS Agreement* gives rise to obligations in respect of all patents existing on the date of application of the Agreement. Initially, the United States argued that the ordinary meaning of the reference in Article 70.2 to "subject matter" existing at the date of application of the Agreement was patents existing on that date but it later argued that this reference was to "inventions that can be patented", "patented inventions", "protected inventions" and "existing inventions (which may already be patented)".

6.15 The United States argues that since Article 70.2 of the *TRIPS Agreement* "gives rise to obligations in respect of all" inventions existing on 1 January 1996 which are protected on that date, Canada is obligated to apply the provisions of Article 33 to all patented inventions that existed on 1 January 1996.

6.16 **Canada** initially responded that Old Act patents that were granted before 1 January 1996 pursuant to an act of the Commissioner of Patents were exempt from the obligations of the *TRIPS Agreement* on the ground that Article 70.1 states that the *TRIPS Agreement* "does not give rise to obligations in respect of acts which occurred before the date of application of the Agreement for the Member in question."

6.17 According to Canada, the word "acts" as used in Article 70.1 is not qualified as referring to any particular type of class of act and therefore does not have a "limited or qualified meaning". In contrast, Canada notes that Articles 26.1, 28.1(a) and (b), 36, 41.1 and 70.4 qualify the use of the word "acts" and refers to a secondary source that states that Article 70.1 expresses the rule of non-retroactivity with respect to acts that occurred before the *TRIPS* application date. Canada concludes therefore that the term "acts" includes acts of issuance by patent authorities and also the act of filing an application.

6.18 Canada argues that the only limitation contained in the word "acts" as used in Article 70.1 is the temporal element and that the "acts" of filing an application and granting a patent for a fixed term are complete when they are made and therefore are not subject to the Agreement because they occurred before the date of application of the *TRIPS Agreement*.

6.19 Canada argues that Article 33 is to be applied prospectively to acts of grant that occurred on or after 1 January 1996 and not retroactively to "acts" of filing or grant that occurred before that date.

6.20 In response to Canada's defence that Section 45 of its *Patent Act* is excluded from the application of Articles 33 and 70.2 by the operation of Article 70.1, the **United States** agrees with Canada's interpretation of the word "acts" in Article 70.1, accepting that it could apply to both infringing acts of third parties and administrative acts of Member governments so that acts of issuing patents before 1996 are excluded from the operation of the *TRIPS Agreement*. However, the United States disagrees with Canada's view that Article 70.1 is applicable to patents in force on the date of

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adopted 1 November 1996, p. 11; Appellate Body Report, *India - Patents*, *supra* footnote 13, para. 46; Appellate Body Report, *European Communities - Customs Classification of Certain Computer Equipment*, WT/DS62/AB/R, WT/DS67/AB/R, WT/DS68/AB/R, adopted 22 June 1998, para. 84; and Appellate Body Report, *United States - Import Prohibition of Certain Shrimp and Shrimp Products*, WT/DS58/AB/R, adopted 6 November 1998, para. 114.

application of the *TRIPS Agreement*, arguing that Article 70.1 has no relevance and that the inventions under protection of those patents are covered by Article 70.2. The United States emphasizes that its interpretation of Article 70.1 and 70.2 has the advantage of avoiding any conflict between them and gives them both meaning.

6.21 The United States argues that the "acts" of Canada's Patent Office prior to 1996 are not at issue. It submits that the violation is unrelated to any pre-1996 "act" but is related only to the subject matter (protected inventions) that existed on 1 January 1996. The United States argues that the rule in Article 70.1 that pre-1996 acts are not subject to the obligations in the Agreement does not imply that subject matter existing on 1 January 1996 is also not subject to the obligations of the Agreement. According to the United States, Article 70.1 does not prevent the prospective application of *TRIPS* standards, including the standard governing the term of protection, to existing subject matter as mandated by Article 70.2.

6.22 The United States also supports its interpretation of Article 70.1 on the basis that if Article 70.1 were to mean that the *TRIPS Agreement* did not apply to existing subject matter which derived from an act prior to the application of the *TRIPS Agreement*, it would render meaningless or redundant paragraphs 3, 4, 5, and 6 of Article 70 and would exclude all intellectual property rights that existed before 1996 from the operation of the *TRIPS Agreement*. The United States argues that such interpretation would undermine its effect and is not borne out by the subsequent practice of Members or the negotiating history of the Agreement.

6.23 **Canada** argues that the introductory phrase of Article 70.2 "[e]xcept as otherwise provided for in this Agreement" requires that, whatever its meaning, it is "trumped" by Article 70.1 and cannot render Old Act patents subject to the Agreement. It argues that the phrase is not limited to other provisions of Article 70.2 itself, but refers to the whole Agreement. It argues that to interpret it otherwise would be to subtract these words from the Agreement, in violation of rules of treaty interpretation in Article 31 of the *Vienna Convention* and WTO jurisprudence.

6.24 Canada relies on the argument that Article 28 of the *Vienna Convention* introduces a presumption against retroactivity "unless a different intention appears from the treaty or is otherwise established". It argued first that there is no different intention expressed in the *TRIPS Agreement* but later accepted that Article 70.2 expresses such a contrary intention, although in its view this is subject to an overriding exception in the introductory phrase. Canada argues that the United States, as the complainant, has the burden of establishing *prima facie* that Articles 33 and 70.2 apply to Old Act patents and that Article 70.1 is not applicable to Section 45 patents.

6.25 The **United States** disagrees with Canada's interpretation of the introductory phrase in Article 70.2 "[e]xcept as otherwise provided for in this Agreement", and argues that it has no bearing on the legal issues involved in this case. It argues that if this phrase produced the result that Article 70.1 applied to patents in force on the date of application of the *TRIPS Agreement* to the exclusion of Article 70.2, it would essentially read Article 70.2 out of the *TRIPS Agreement*. It argues that the introductory phrase refers, *inter alia*, to the second half of Article 70.2, which deals with copyright and related rights, which have no bearing on this case.

6.26 In response to the United States' claim that *TRIPS* obligations apply to inventions protected by Old Act patents, **Canada** argues that the obligation in respect of Article 33 of the *TRIPS Agreement* applies to a patent but not to "subject matter". In Canada's view, a "patent" is the "vehicle of protection", "a legal device through which the State protects an invention [and] not subject matter within the ordinary meaning of Article 70.2." The expression "subject matter", according to Canada, is the object of the protection, e.g. work, mark, design, invention, layout-design or geographical indication. In Canada's view, such distinction is reflected in Article 27 which defines what "subject matter" is "patentable" or "protectable"; Article 28 which defines the rights to be conferred and protected by a patent; Article 29 which defines an applicant's obligation to disclose its invention as part of the patent bargain; and Article 33 which defines a variable term of protection during which

the rights conferred will endure. According to Canada, the distinction between "subject matter" and "patent" operates to detach the term of protection given by the "act" of the issuance of the patent from the exclusive and other rights conferred by the "patent" itself.

6.27 Canada argues that the Article 33 obligation in respect of the term of protection is related to the act of filing a patent application and the act of granting a patent. According to Canada, the act of filing is the trigger which sets the expiry date for the term of protection. However, Canada notes, there can be no term of protection unless a patent is in fact granted because there is no basis for the protection of the invention unless and until the patent is granted. Canada maintains that the commencement of the term of protection is triggered by the act of grant. Canada states that both the commencement and expiry of the term of protection depend upon the occurrence of these two successive and related acts. Canada concludes that the obligation in Article 33 is an obligation in respect of "acts" and that Article 70.1 states that the *TRIPS Agreement* does not give rise to obligations in respect of "acts" which occurred before 1 January 1996.

6.28 Canada argues that the act of filing a patent application and the administrative act of granting a patent were essential to initiate a term of protection under Article 33 and that Article 33 obligation does not apply retroactively to Old Act patents because the word "acts" in Article 70.1 covers the act of filing an application and the administrative act of grant of a patent. Canada argues that, unlike Article 33 which is temporal in nature because of its linkage of both the commencement and the expiry dates of the term of protection with the acts of filing and granting, the obligation in Article 28 does not depend upon the occurrence of any act. According to Canada, the operation of Article 28 depends solely upon a patent being in existence.

6.29 The **United States** notes that Canada acknowledges that pre-1996 acts do not preclude the application of the obligations in Articles 27.1, 28 and 31(h) to existing subject matter. The United States asserts that Canada is unable to explain why the *TRIPS* obligation involving the term of protection may be properly excluded under Article 70.1 while other obligations, such as the provision of exclusive rights in Article 28, are not.

6.30 The United States contends that obligations in Articles 27, 28 and 31 of the *TRIPS Agreement* cannot be distinguished in this regard from the obligation in Article 33. The United States claims that under Article 70.2, Canada must apply all *TRIPS* obligations to all inventions that were protected on 1 January 1996.

## **2. Evaluation by the Panel**

6.31 We consider in this section the respective merits of:

- (a) the United States' claim that the phrase existing "subject matter...which is protected", as used in Article 70.2, includes inventions protected by Old Act patents on 1 January 1996; and
- (b) Canada's arguments that:
  - (i) Article 70.2 of the *TRIPS Agreement* is not applicable in this dispute on the basis of the meaning of the word "acts" contained in Article 70.1 and the introductory phrase "[e]xcept as otherwise provided for in this Agreement" contained in Article 70.2. We then consider the merit of this argument in light of the principle of effective treaty interpretation; and
  - (ii) Article 70.2, even if it were applicable to inventions protected by Old Act patents on 1 January 1996, does not require Members to apply the obligation of Article 33 of the *TRIPS Agreement* in relation to those patents.

- (a) Consideration of the United States' claim that "subject matter...which is protected" in Article 70.2 is applicable to inventions which enjoy protection on 1 January 1996

6.32 The United States argued that the plain language of Article 70.2 requires Canada to apply the obligations of the *TRIPS Agreement* to all patented inventions that existed on 1 January 1996.<sup>15</sup> Article 70.2 states in relevant part:

"Except as otherwise provided for in this Agreement, this Agreement gives rise to obligations in respect of all *subject matter existing at the date of application of this Agreement* for the Member in question, and which is *protected* in that Member on the said date, or which meets or comes subsequently to meet the criteria for protection under the terms of this Agreement. ..." (emphasis added)

6.33 Article 70.2 gives rise to obligations under the *TRIPS Agreement* in respect of all "subject matter" existing on the date of application of the Agreement, provided that the "subject matter" is "protected" on that date or meets or comes to meet the criteria for protection under the *TRIPS Agreement*. We note that in Article 70.2 the word "subject matter" is followed by the word "protected" to read "subject matter...which is protected". Although the term "subject matter" is not defined in the Agreement, it is used in various subheadings and provisions of Sections 1 through 7 of Part II of the *TRIPS Agreement* and is either preceded or followed by the word "protected" or variations thereof, i.e. "protectable", "protection", to describe the "subject matter" that can or is to be "protected".

6.34 As it is undisputed that this case involves patents, the relevant provisions are contained in Section 5 of Part II of the *TRIPS Agreement*. The subheading of Article 27 is "Patentable *Subject Matter*" and paragraph 1 of Article 27 provides that the "subject matter" of this Section is "inventions". The ordinary meaning of "subject matter", which is "the topic dealt with or the subject represented in a debate, exposition, or work of art",<sup>16</sup> and the language "*patents shall be available for any inventions*" in Article 27.1 of the *TRIPS Agreement* support the view that "subject matter" in relation to patents is "inventions".

6.35 When we examine the "protection" available to inventions, Article 27, read as a whole, supports the view that inventions are the relevant subject matter; novelty, inventive step and usefulness are the requirements for their "protection"; and patents are a relevant form of "protection". This view is confirmed contextually by other provisions in Part II of the *TRIPS Agreement* that deal with other "subject matter". For example, "Protectable Subject Matter" is the subheading of Article 15, which provides, *inter alia*, that any distinctive sign is capable of constituting a trademark. This indicates that signs are the relevant subject matter, distinctiveness is the basic requirement for their protection and trademarks a relevant form of protection. Other types of what we call "material" for the purpose of this analysis are described as "protected" or attracting "protection", i.e., "Protection of Geographical Indications" in subheading of Article 22, "protected design" and "protected industrial designs" in paragraphs 1 and 2 of Article 26, which is consistent with a view that these types of "material" are specific categories of subject matter. The word "protection" is qualified by a specific intellectual property right in the phrase "copyright protection" in Article 9.2, which provides that it "shall extend to expressions", indicating that the intellectual property right is the form of protection and is consistent with a view that "expressions" refer to literary and artistic works which are the relevant category of subject matter. Indeed, the whole purpose of Part II of the *TRIPS Agreement* is to describe categories of "material", specify requirements of each which, if met, will entitle it to the conferral of the protection in the form of a particular intellectual property right and then to specify those rights and their duration.

<sup>15</sup> Response of the United States to Panel Question 7; Second Oral Statement of the United States, para. 18.

<sup>16</sup> *The New Oxford Dictionary of English*, (Oxford University Press, 1998), p. 1849.

6.36 In view of the above, we find that the term "subject matter" refers to particular "material", including literary and artistic works, signs, geographical indications, industrial designs, inventions, layout-designs of integrated circuits and undisclosed information, which, if they meet the relevant requirements set out in Part II of the Agreement, will attract protection in the form of the corresponding intellectual property rights which are set out in Sections 1 to 7 of Part II of the *TRIPS Agreement*. We therefore find that the reference to "subject matter...which is protected" on the date of application of the *TRIPS Agreement* in Article 70.2 includes "inventions" that were under patent protection in Canada on 1 January 1996. We also find that the United States has established a *prima facie* case that Article 70.2 is applicable to inventions protected by Old Act patents.<sup>17</sup>

(b) Consideration of Canada's arguments

6.37 In light of our preliminary finding set out in paragraph 6.36, we now consider Canada's arguments that run counter to that finding.

(i) *The argument that Article 70.2 is set aside by Article 70.1*

6.38 There are two elements to Canada's argument that Article 70.2 is set aside by Article 70.1. The first is based on Canada's interpretation of the word "acts" as it is used in Article 70.1 and the second is based on the application of the introductory phrase "[e]xcept as otherwise provided" contained in Article 70.2. We will consider these in turn and then apply the principle of effective treaty interpretation to Canada's argument.

*The meaning of "acts" as it is used in Article 70.1*

6.39 We note that Canada initially argued that Old Act patents which were granted pursuant to the administrative "act" of the Commissioner of Patents before 1 January 1996 are exempt from the obligations of the *TRIPS Agreement* by virtue of the non-retroactivity rule set out in Article 70.1.<sup>18</sup> Canada relied on the fact that patents, unlike the subject matter of protection, flow from two "acts" - the "act" of filing an application and the "act" of issuing the patent by the Commissioner of Patents - both of which, in respect of Old Act patents, occurred before the date of application of the *TRIPS Agreement* and which were therefore covered by Article 70.1.<sup>19</sup> The United States also stated that the term "acts" can include the "act" of granting a patent but argued that these acts, where they occurred before 1996, are not subject to the obligations of the *TRIPS Agreement*.<sup>20</sup>

6.40 The word "acts", the ordinary meaning of which is "things done",<sup>21</sup> as used in Article 70.1, may encompass acts of third parties such as acts of unfair competition;<sup>22</sup> acts of infringement, potential infringement or unauthorized use;<sup>23</sup> acts not requiring the authorization of the right holder;<sup>24</sup>

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<sup>17</sup> The United States pointed out that "subject matter" refers to the matter that is or can be entitled to intellectual property protection, such as "broadcasts that can be copyrighted, signs that can be trademarked and inventions that can be patented." The United States emphasized that its complaint is not based on any pre-1996 "act" but is "related only to subject matter (protected inventions) that existed on [1 January 1996]". Accordingly, the United States noted that Article 70.1 is not relevant in this dispute and that the irrelevance of Article 70.1 to the specific facts of this dispute did not render Article 70.1 meaningless. It stated that construing the first paragraph of Article 70 as a provision that is "otherwise provided for in this Agreement" has the effect of reading the second paragraph of that Article out of the *TRIPS Agreement* and produced the speaking note of the chairman of the 10 + 10 meeting which suggested that the introductory phrase in Article 70.2 was intended to apply to the second sentence of Article 70.2 (see U.S. Exhibit 11).

<sup>18</sup> Canada's First Submission, para. 5(d).

<sup>19</sup> Canada's Response to Panel Question 6(c).

<sup>20</sup> Rebuttal Submission of the United States, para. 25.

<sup>21</sup> *Webster's New World Dictionary*, (The World Publishing Company, 1976), p.13.

<sup>22</sup> Article 22.2 of the *TRIPS Agreement*.

<sup>23</sup> Articles 26.1, 28.1(a) and (b), 36, 41 and 70.4 of the *TRIPS Agreement*.

<sup>24</sup> Article 37 of the *TRIPS Agreement*.



or an act of a right holder in relation to provisional measures.<sup>25</sup> On a broader view, "acts" may also refer to the acts of competent authorities of Members as reflected in Article 58 of the *TRIPS Agreement*.

6.41 However, for the purpose of this dispute, we do not consider it necessary to decide whether this broader view of the meaning of the word "acts" is correct, because even if, *arguendo*, "acts" as used in Article 70.1 include the administrative act of granting a patent by the Commissioner of Patents, they would still be distinct from the "subject matter...which is protected" as used in Article 70.2 which we have defined in paragraph 6.36 as inventions protected by Old Act patents on the date of application of the *TRIPS Agreement*. Even though Article 70.1 may exclude the administrative act of granting a patent prior to 1 January 1996 from the coverage of the *TRIPS Agreement*, we cannot conclude on the basis of that fact that the non-retroactivity rule of Article 70.1 governs inventions protected by Old Act patents that existed on 1 January 1996 because the administrative act of granting a patent results in the protection of the underlying "subject matter" and this protection granted to the "subject matter" is ongoing and can continue past 1 January 1996. To the extent that such protection does so continue past 1 January 1996 in Canada, it is a situation which has not ceased to exist<sup>26</sup> by the date of application of the *TRIPS Agreement* and which is therefore subject to the obligations of the Agreement from that date. Acts to apply the *TRIPS Agreement* after that date to such situations are not "acts" which occurred before the date of application of the Agreement for the Member in question and therefore not covered by Article 70.1.

6.42 For the reasons set out above, we confirm our preliminary finding in paragraph 6.36 that Article 70.2, not Article 70.1, is applicable to inventions protected by Old Act patents on 1 January 1996. We also find that the United States has established a *prima facie* case that the ongoing protection of the inventions protected by Old Act patents is a situation that did not cease to exist prior to entry into force of the *TRIPS Agreement* within the meaning of Article 28 of the *Vienna Convention*.

*The meaning of "[e]xcept as otherwise provided" as used in Article 70.2*

6.43 Canada also argued that Article 70.2 is not applicable because paragraph 1 of Article 70 is "a proviso 'otherwise set out in the Agreement'" which prevails over paragraph 2 of Article 70 on which the United States relies to establish the application of Article 33 to Section 45 patents.<sup>27</sup> Canada claimed that even though patentable subject matter is defined as inventions that meet or are capable of meeting the criteria set out in Article 27, and that those inventions which existed on the date of application of the *TRIPS Agreement* were entitled to the benefit of the obligations under the Agreement, this was subject to the qualification contained in the introductory phrase in Article 70.2 "except as otherwise provided" in the Agreement, which referred to Article 70.1 and set aside Article 70.2 in this dispute.

6.44 The introductory phrase "[e]xcept as otherwise provided for in this Agreement" qualifies Article 70.2 and the exception is only relevant where there is another provision that is inconsistent with the first sentence, in which event the other provision would prevail. Because we consider that the word "acts" and the term "subject matter" are different concepts with disparate meanings and the term "acts" as used in Article 70.1 refers only to discrete acts which predate the date of application of the *TRIPS Agreement* and not to subsequent acts to apply the Agreement, including to situations that have not ceased to exist on that date, there is no inconsistency between paragraphs 1 and 2 of Article 70. Article 70.1 therefore does not fall within the exception and does not set aside Article 70.2.

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<sup>25</sup> Article 50.7 of the *TRIPS Agreement*.

<sup>26</sup> Article 28 of the *Vienna Convention*.

<sup>27</sup> Canada's First Submission, para. 126; Canada's Response to Panel Question 7.

6.45 This interpretation has the benefit of avoiding any conflict between paragraphs 1 and 2 of Article 70, which is consistent with the concept of presumption against conflict as it exists in public international law.<sup>28</sup>

6.46 Our interpretation is also confirmed by the negotiating history. When the introductory phrase was being discussed during the *TRIPS* negotiations, the Chairman of the Negotiating Group stated:

"In the first line [of Article 70.2], the initial phrase would be amended to read 'Except as otherwise provided for in this Agreement...' This would make it clear that, for example, Article 18 of Berne applies by virtue of Article 9.1."<sup>29</sup>

6.47 For the reasons given above, we do not agree that the introductory phrase "[e]xcept as otherwise provided for in this Agreement" in Article 70.2 can be construed to refer to paragraph 1 of Article 70.

#### Effective interpretation

6.48 We note that if we were to accept Canada's argument that patents granted prior to 1 January 1996 are not subject to the obligations in the *TRIPS Agreement* or that Article 70.1 is a provision "otherwise provided for in this Agreement", drafters of the *TRIPS Agreement* would not have needed to delineate the nature of obligations of Members with respect to "all subject matter existing at the date of application of this Agreement" in Article 70.2. Canada's argument would reduce paragraph 6 of Article 70 to redundancy or inutility. There would be no need to state in paragraph 6 that Members are not required to apply rules concerning compulsory licensing to compulsory licences granted before the date the Agreement became known. In addition, to the extent that Article 70.1 is construed to mean that a Member had no *TRIPS* obligations with respect to intellectual property for which the act of filing an application occurred prior to 1 January 1996, Article 70.7, which permits pending applications for protection to be amended to take into account enhanced protection, would be reduced to inutility.

6.49 Interpretation of treaty language that reduces certain provisions to redundancy or inutility is contrary to the principle of effective interpretation.<sup>30</sup> The Appellate Body stated in *United States — Gasoline* that "[o]ne of the corollaries of the 'general rule of interpretation' in the *Vienna Convention* is that interpretation must give meaning and effect to all the terms of the treaty. An interpreter is not

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<sup>28</sup> The Panel in *Indonesia - Certain Measures Affecting the Automobile Industry* stated: "...we recall first that in public international law there is a presumption against conflict. [footnote deleted] This presumption is especially relevant in the WTO context since all WTO agreements, including GATT 1994 which was modified by Understandings when judged necessary, were negotiated at the same time, by the same Members and in the same forum." WT/DS54/R, WT/DS55/R, WT/DS64/R, adopted 23 July 1998, para. 14.28.

<sup>29</sup> 10 + 10 Meeting, Speaking Note for the Chairman (16 December 1991) which was circulated to all Members and is reproduced in U.S. Exhibit 11.

<sup>30</sup> The principle of effective interpretation or "l'effet utile" or in latin *ut res magis valeat quam pereat* reflects the general rule of interpretation which requires that a treaty be interpreted to give meaning and effect to all the terms of the treaty. For instance, one provision should not be given an interpretation that will result in nullifying the effect of another provision of the same treaty. For a discussion of this principle, see Yearbook of the International Law Commission, 1966, Vol. II A/CN.4/SER.A/1966/Add.1 p. 219 and following. See also e.g., *Corfu Channel Case* (1949) I.C.J. Reports, p. 24 (International Court of Justice); *Territorial Dispute Case (Libyan Arab Jamahiriya v. Chad)* (1994) I.C.J. Reports, p. 23 (International Court of Justice); and Oppenheim's International Law (9th ed., Jennings and Watts eds., 1992), Vol. 1, 1280-1281. See also the statement of the Appellate Body in *United States - Gasoline*, *supra* footnote 14, p. 12 ("An interpreter is not free to adopt a reading that would result in reducing whole clauses or paragraphs of a treaty to redundancy or inutility") and the Appellate Body Report on *Japan - Alcoholic Beverages*, *supra* footnote 14, p. 12. See also the Panel Report on *Korea - Definitive Safeguard Measure on Imports of Certain Dairy Products*, WT/DS98/R, adopted 12 January 2000, para. 7.37.

free to adopt a reading that would result in reducing whole clauses or paragraphs of a treaty to redundancy or inutility".<sup>31</sup>

6.50 Our interpretation that Article 70.1 does not fall within the introductory phrase "[e]xcept as otherwise provided for in this Agreement" does not reduce that phrase to inutility. In our view, the reference in the introductory phrase in Article 70.2 includes the second sentence of paragraph 2 and paragraphs 4 and 6 of Article 70.

6.51 For all of the reasons given above, we confirm our preliminary finding set out in paragraph 6.36.

(ii) *The argument that Article 70.2 does not include the obligation under Article 33*

6.52 Canada also argued that, even if Article 70.2 were construed to cover existing patents, it would do so in respect of the scope of patent rights set out in Article 28 and the obligation in Article 31(h), but not the obligation to make available the term of protection provided under Article 33. This argument is based on the notion that, unlike the rights conferred by a patent which are in respect of the invention (subject matter), the term of protection is an "integral part" of the act of grant and thus subject to the provision in Article 70.1.<sup>32</sup> However, we cannot discern any merit or justification in the *TRIPS Agreement* for this distinction. No evidence has been advanced which would explain why the administrative "act" of grant of a patent, which confers protection on inventions, would preclude the application of the term of protection contained in Article 33 to existing patents but not the exclusive rights set forth in Article 28 and other matters set out in Section 5 of Part II of the Agreement.

6.53 In our view, Members are required to comply with all the relevant obligations set out in the *TRIPS Agreement*, including those in Section 5 of Part II, which require Members to provide patent protection for a term consistent with the requirement set out in Article 33 in respect of existing "subject matter...which is protected" on the date of application of the *TRIPS Agreement*, or which meets or comes to meet the criteria for protection. Neither the textual nor the contextual reading of Section 5 of Part II supports the notion that one obligation can be detached from the patent issued to the right holder or that Members need not comply with all relevant *TRIPS* obligations in relation to them. Holders of patents valid on the date of application of the *TRIPS Agreement* are entitled to protection of all of the rights set out in the Agreement for a term consistent with the requirement in Article 33.

6.54 Our interpretation is confirmed by footnote 3 to the *TRIPS Agreement*,<sup>33</sup> which forms part of the overall context of Article 70.2. The language contained in footnote 3 suggests that protection afforded to right holders of intellectual property is comprehensive and does not state or imply that certain rights or obligations can be detached and considered in isolation. In particular and germane to this dispute, the expression "matters affecting the...scope" of intellectual property rights refers, *inter alia*, to the term of protection and confirms that the term of protection (of a patent among other intellectual property rights) is to be protected together with the exclusive rights within the scope of a patent as set out in Article 28.

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<sup>31</sup> *United States - Gasoline*, *supra* footnote 14, p. 23. See also Appellate Body Report, *Japan - Alcoholic Beverages*, *supra* footnote 14, p. 12; Appellate Body Report, *Canada - Measures Affecting the Importation of Milk and the Exportation of Dairy Products*, WT/DS103/AB/R, WT/DS113/AB/R, adopted 27 October 1999, para. 133; and Appellate Body Report, *Argentina - Safeguard Measures on Imports of Footwear*, WT/DS121/AB/R, adopted 12 January 2000, para. 88.

<sup>32</sup> Canada's Response to Panel Questions 36 and 37.

<sup>33</sup> We note that footnote 3 describes "protection" "for the purposes of Articles 3 and 4" of the *TRIPS Agreement*. However, we are of the view that the footnote can serve as context in interpreting protection to be provided for intellectual property rights.

6.55 For the reasons set out above, we find that Canada is required to apply the obligation under Article 33 to inventions protected by Old Act patents on 1 January 1996 and confirm our preliminary finding set out at paragraph 6.36.

### 3. Overall conclusion with respect to Article 70

6.56 We find that the United States established a *prima facie* case that Article 70.2 applied to inventions protected by Old Act patents in force on 1 January 1996 and therefore required developed country Members to apply the relevant obligations under the *TRIPS Agreement* as of that date to those inventions. For the reasons set out above, we reject Canada's argument that the non-retroactivity rule embodied in Article 70.1 is the provision applicable to inventions protected by Old Act patents in force on the date of application of the Agreement on the basis that those patents were granted pursuant to an "administrative act" of the Commissioner of Patents. For this reason, Article 70.1 does not override Article 70.2 despite the introductory phrase "except as otherwise provided for in this Agreement". We also reject Canada's argument that Article 70.2 does not require Members to apply the obligations of Article 33 to inventions protected by Old Act patents. In so doing, we confirm our finding that, within the context of this dispute, "subject matter" refers to inventions that meet the requirements for patentability set out in Article 27.1 and that patents constitute one form of protection of those inventions, with the result that the term "subject matter...which is protected" as used in Article 70.2 includes inventions which are protected by patents, i.e., patented inventions. In view of that finding, Canada was required to apply the relevant obligations of the *TRIPS Agreement*, including those set out in Section 5 of Part II of the Agreement, which contains Article 33, to inventions protected by Old Act patents that were in force on 1 January 1996.

#### C. CONFORMITY OF SECTION 45 OF CANADA'S *PATENT ACT* WITH ARTICLE 33 OF THE *TRIPS AGREEMENT*

6.57 In this section, we consider whether Section 45 of Canada's *Patent Act* is in conformity with Article 33 of the *TRIPS Agreement*. Before evaluating the conformity of Section 45 with Article 33, the principal arguments made by the parties are set forth below.

##### 1. Arguments of the parties

6.58 The **United States** argues that the *TRIPS Agreement* requires that Canada grant a term of protection for patents that runs at least until 20 years after the filing date. The United States contends that the plain meaning of Article 33 indicates that the term of protection set forth in Article 33 is a minimum term and that this interpretation is supported contextually by Article 1.1 of the *TRIPS Agreement*, which states that "Members may, but shall not be obliged to, implement...more extensive protection than is required by this Agreement". With respect to those patents that were filed before 1 October 1989 and granted in less than three years by the Canadian Commissioner of Patents and in existence as of the *TRIPS* application date, the United States claims that Canada is in violation of Articles 33 and 70.2 because the protection term of 17 years from the date of grant provided by Section 45 of Canada's *Patent Act* often ends before a term of 20 years from the date of filing.

6.59 It is the United States' contention that Canada is in violation of the *TRIPS Agreement* with respect to each and every patent for which the term of protection is less than 20 years as of the filing date. For those patents that were issued in exactly three years, the United States notes that there is no difference between the term provided by Canada and the term required by the *TRIPS Agreement*. If a patent took longer than three years to be granted, the United States notes that the term of protection would actually be longer than required.

6.60 Referring to the figures set out in paragraph 2.10, the United States notes that, as of 1 January 2000, 66,936 Old Act patents would expire sooner than would be the case if Canada had provided a term of 20 years from filing. The United States contends that historically, 50 per cent (50%) of patent applications filed in Canada are from U.S. applicants. Thus, the United States

estimates that well over 33,000 U.S. patent holders are currently holding patents with a term less than that required under the *TRIPS Agreement*.

6.61 The United States notes that under the *Vienna Convention*, "any subsequent practice" in the application of an Agreement may also establish "the agreement of the parties regarding its interpretation". In this case, according to the United States, state practice of other developed country WTO Members in applying Articles 33 and 70 of the *TRIPS Agreement* demonstrates the term of patent protection that other Members have viewed as legally required by the *TRIPS Agreement*. In this regard, the United States notes that, in addition to itself, Australia, Germany, Greece, New Zealand and Portugal have revised their laws to conform to the 20-year, as of the filing date, protection term.

6.62 **Canada** rebuts that Section 45 of Canada's *Patent Act* provides patent right holders an "effective" protection for the "exclusive privilege and property rights" that are "equivalent or superior" to the term of "exclusive privilege and property rights" provided by Article 33 of the *TRIPS Agreement*.

6.63 Canada claims that Article 33 does not provide for a minimum of 20 full years of protection for the "exclusive privilege and property rights" because the term referred to in Article 33 will be eroded by the operation of reasonable procedures which are prerequisites to the grant of a patent. According to Canada, the period of time between the date of filing and the grant of a patent will vary. Canada states that Article 62.2 recognizes that the period referred to in Article 33 will be curtailed by reasonable procedures that are prerequisite to the granting of a patent.

6.64 Canada argues that where in the normal course it takes, as it currently does in Canada in respect of New Act patents, five years to complete the examination process for a patent whose term is related to its application filing date, the period of exclusivity will be reduced accordingly. Since the five year examination period is the normal or average examination period, it must, in Canada's submission, be viewed as being "a reasonable period which avoids any unwarranted curtailment of the period of protection".

6.65 Canada argues that in cases where the term of protection is measured from the date of filing, the period during which a successful applicant will enjoy the exclusive privilege and property right conferred by a patent once issued will, in the normal course, be 15 years. Canada adds that it may provide either more or less protection depending on the length of the examination process in any particular case. Canada points out that under Section 45, on the other hand, a successful applicant will enjoy 17 years of constant protection for the "exclusive privilege and property rights" conferred by a patent.

6.66 Canada then claims that since the term of the "effective" protection for the exclusive rights conferred by Section 45 is routinely two years longer than the "normal or average" period of "effective" protection provided by the joint operation of Articles 33 and 62 of the *TRIPS Agreement*, Article 33 and Section 45 can be said to be substantively or "effectively" equivalent and therefore Section 45 is consistent with the minimum standard prescribed by the *TRIPS Agreement*.

6.67 Canada submits that because both Section 45 and Article 33 provide an equivalent period of "effective" protection, it acted within the scope of the freedom afforded to Members under Article 1.1 which permits Members "to determine the appropriate method of implementing the provisions of [the] Agreement within their own legal system and practice".

6.68 The **United States** argues that Canada's equivalence argument is flawed in that it relies on the "normal or average" period of "effective" protection or "exclusive privilege and property rights". The United States notes that Canada uses the averaging methodology in two ways. First, it claims that since five years is the "normal or average" pendency period for New Act patent applications, the effective term of protection under a regime of 20 years from filing would "normally" be an "average"

of 15 years, which is less than the 17-year period provided under the Old Act. The United States points out that Canada also uses the averaging methodology to make the opposite comparison, i.e., to assert that the "average" two to four year pendency period for its Old Act patents makes these patents "equivalent to and in fact...longer than the normal or average" period of "effective" protection required by the *TRIPS Agreement*. The United States contends that Canada's reliance, however, on average pendency periods of Old Act and New Act patents inevitably means that its analysis fails to take into account those patents with pendency periods outside the average. The United States maintains that the important element is that every Old Act patent that was pending for less than three years before being issued by Canada has a term that ends before a period of 20 years from the date of filing.

6.69 The United States argues that although the application of Section 45 has in fact caused harm to U.S. right holders, the United States observes that the mere potential of the provision to result in the denial of a *TRIPS*-level patent term is sufficient to establish a violation of Articles 33 and 70. Furthermore, the United States notes that in light of Canada's failure to properly implement these provisions, proof of actual trade damage is not required and nullification or impairment is presumed. Finally, the United States contends that it is irrelevant whether, under certain conditions, Section 45 might result in the grant of a term of protection to certain right holders that is longer than required under the *TRIPS Agreement*. The United States argues that Canada cannot rely upon its *TRIPS*-plus level treatment of some patentees to justify its denial of *TRIPS*-level treatment to other patentees.

6.70 **Canada** states that it is not arguing that when allegedly term-deficient Old Act patents are added together with those having surplus term and are then appropriately divided, the resulting average term is greater than the term referred to in Article 33 and is, therefore, consistent with the *TRIPS* standard. Canada also claims that it is not arguing that the "more favourable treatment" accorded to surplus term compensates for the alleged deficiency in the term granted to so-called "term-deficient" Old Act patents.

6.71 Canada claims that Section 45 of its *Patent Act* does not prescribe that the term of protection shall end before the expiration of the 20-year period from the date of filing. Canada argues that a term of protection of at least equal to (and frequently in excess of) a period of 20 years from the date of filing was "available" under Section 45, without either exceptions or discrimination, to any Old Act applicant who wished to count and obtain a term of protection on that basis. Therefore, in Canada's view, Section 45 is consistent with Article 33 of the *TRIPS Agreement*.

6.72 Canada points out that over 60 per cent of Old Act applicants obtained or will obtain terms of protection that are equal or superior to the *TRIPS* mandated term of protection of 20 years from the date of filing. The other 40 per cent chose not to take advantage of the delays available to ensure a term of protection that would end before the expiration of a period of 20 years from the date of filing. However, Article 33 only requires that a protection term of 20 years be "available". Canada concludes that since there is nothing in the Canadian "availability" measures which discriminates between applicants or applications, what was obtained in respect of 60 per cent of the Old Act applications was "available" for 100 per cent of the Old Act applications.

6.73 Canada argues that the longevity of patent protection can be strategically controlled by the applicant so as to obtain a patent protection term of 20 years from the date of filing by means of delaying the patent prosecution process.<sup>34</sup> Canada points out that under Section 30 of the Old Act, an

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<sup>34</sup> Canada states in para. 37 of its First Submission:

"Many means exist that allow an applicant to slow down the prosecution of an old Act application. These include the following:

- (i) An applicant can achieve a delay in processing simply by asking the patent examiner. In my personal experience, I am unaware of any such request being refused.
- (ii) One simple means for delaying an application is for an applicant to wait until the end of each time limit imposed upon the applicant to take a specified action. For example, an applicant can wait until the end of the six month period for responding to each report issued by the examiner

applicant can delay the patent prosecution process by up to 42 months. Section 73 provides an additional 12 months of delay. When the delays available under Sections 30 and 73 are added to the 17-year term of protection for patents, the total term of protection available is 21.5 years from the date of filing, in addition to other delays that may occur in the examination process.

6.74 Canada argues a patent protection term of 20 years from the date of filing was available universally and that Article 33 does not require a Member to impose a patent protection term of 20 years from the date of filing against the revealed preference of the applicant.

6.75 In Canada's view, it acted within the scope of the freedom afforded to Members under Article 1.1 of the *TRIPS Agreement* "to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice". Consistent with the legal test established under the *India—Patents*, Canada argues that its "means" of availability of the *TRIPS* mandated patent protection term of 20 years from the date of filing was provided on a "sound legal basis".

6.76 The **United States** responds that the Canadian law provides no sound legal basis for patent applicants that filed applications before 1 October 1989, to obtain a term of protection that did not end before a period of 20 years from the filing date. It asserts that neither of the provisions of law cited by Canada - Sections 30 and 73 of the Old Act - provided such a basis.

6.77 The United States argues that an Old Act applicant could obtain a term of 20 years from filing by actually abandoning its patent application not once, but twice. Then, the United States notes, after twice abandoning its application for a maximum period of time, and having it reinstated, the applicant could forfeit that application, wait a maximum period of time, and then reinstate it a third time.

6.78 The United States points out that Section 30(2) of the Old Act provides that the reinstatement of an abandoned patent application would only be permitted if a delay "was not reasonably avoidable".<sup>35</sup> It argues that, far from providing a legally guaranteed right to delay a patent application, Canadian law explicitly prohibits use of the abandonment and reinstatement procedure described by Canada where a delay was reasonably avoidable.

6.79 The United States asserts that Canada essentially argues that its patent examiners routinely ignore the mandatory provisions of Section 30(2), asserting that its Commissioner of Patents is unaware of reinstatement ever having been refused.<sup>36</sup> However, the United States notes, regardless of the practices of Canada's patent examiners, Section 30(2) unambiguously requires that reinstatement be denied where delays were reasonably avoidable.

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and until the end of the six month period for paying the final fee due before a patent is granted.

- (iii) An applicant can also choose to not respond to an examiner's report within the six month period following issuance of the report. This has the consequence that the application will be treated as abandoned; however, an abandoned application can be reinstated within twelve months.
- (iv) An applicant can further choose to not pay the final fee within the six month period following the Office notice requiring payment. This has the consequence that the application will be treated as forfeited; however, a forfeited application can be restored within six months.
- (v) Prior to October 1, 1996, there was a provision in the Patent Rules that permitted an applicant, upon payment of a fee, to postpone the date of issue of a patent by up to 10 weeks."

<sup>35</sup> Canadian *Patent Act*, R.S.C., ch. P-4, § 30(2) (1985). Reproduced in relevant part in Canada Exhibit 16.

<sup>36</sup> Canada's First Oral Statement, para. 47.

6.80 The United States suggests that Canada's arguments are similar to those rejected by the Panel and Appellate Body in *India - Patents*.<sup>37</sup> The United States notes that, in that dispute, India argued that certain "administrative instructions" provided a "sound legal basis to preserve novelty of inventions and priority of applications as of the relevant filing and priority dates," despite provisions of India's Patents Act that required the Patents Controller to reject such applications.<sup>38</sup> The United States points out that the Appellate Body looked specifically at the provisions of India's Patents Act, and decided:

"We agree with the Panel that these provisions of the Patents Act are mandatory. And, like the Panel, we are not persuaded that India's 'administrative instructions' would prevail over the contradictory mandatory provisions of the Patents Act."<sup>39</sup>

6.81 The United States argues that Section 30(2) of the Old Act is mandatory in that abandoned applications can be reinstated only where the delay was "not reasonably avoidable." Thus, it argues, the procedure pursuant to which Canada argues that 20-year patent terms were available is prohibited by the very statute on which Canada bases its argument.

## 2. Evaluation by the Panel

6.82 In this section of the Report, we examine the obligation set out in Article 33 of the *TRIPS Agreement* to ascertain whether Section 45 of Canada's *Patent Act* is in conformity with Article 33. We then consider whether the text or context of Article 33 allows Canada to use the concept of "effective" protection or "exclusive privilege and property rights" to argue that there is an equivalence of term of protection made available by Section 45 and Article 33. We also evaluate Canada's use of the average pendency period of the New Act and Old Act patents in support of its argument that the term of protection made available under Section 45 is equivalent or superior to the term of protection made available by Article 33. We then examine whether Section 45 makes "available", as that term is used in Article 33, a term of protection that does not end before 20 years from the date of filing.

### (a) Consideration of the United States' claim in relation to Article 33

6.83 The United States argued that Article 33 of the *TRIPS Agreement* requires Canada to provide a minimum term of protection that "shall not end before the expiration of...twenty years counted from the date of filing" for all Old Act patents. It is the United States' contention that the 17-year term of protection measured as of the date of grant is inconsistent with Article 33 on the ground that Old Act patents often expire before 20 years from the date of filing.

6.84 Article 33 of the *TRIPS Agreement* states:

"The term of protection available shall not end before the expiration of a period of twenty years counted from the filing date."

6.85 The language provided in Article 33 requires Members to make available a "term of protection" for patents that does not end before 20 years from the date of filing. The use of the term "shall not end *before*" suggests that the 20-year period as of the filing date is a minimum term of protection for patents to be made available by Members. Such interpretation of Article 33 is supported by the minimum standard language governing the term of protection for copyright, trademarks, industrial designs, and layout-designs of integrated circuits which provide that the term of protection is to be "*no less than 50 years*",<sup>40</sup> "*no less than seven years*",<sup>41</sup> "*at least ten years*"<sup>42</sup> and

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<sup>37</sup> Appellate Body Report, *India - Patents*, *supra* footnote 13.

<sup>38</sup> *Ibid.*, paras. 67-71.

<sup>39</sup> *Ibid.*, para. 69.

<sup>40</sup> Article 12 of the *TRIPS Agreement* provides that "[w]henver the term of protection of a work, other than a photographic work or a work of applied art, is calculated on a basis other than the life of a natural person, such term shall be no less than 50 years from the end of the calendar year of authorized publication. ..."



"shall not end *before* the expiration of a period of 10 years counted from the date of filing an application for registration",<sup>43</sup> respectively.

6.86 Interpretation of Article 33 as a minimum standard for the expiry of the available term of protection ("minimum standard") is also borne out by Article 1.1 of the *TRIPS Agreement* which forms part of the context of Article 33. Article 1.1 provides:

"Members shall give effect to the provisions of this Agreement. Members *may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement*, provided that such protection does not contravene the provisions of this Agreement. ... " (emphasis added)

6.87 Article 1.1 confirms that the *TRIPS Agreement* is a minimum standards agreement in respect of intellectual property rights. Under Article 1.1, Members may, but are not obligated to, implement a more stringent standard for the protection of intellectual property rights so long as such measures do not contravene any of the provisions of the *TRIPS Agreement*. The textual reading of Article 1.1 suggests that Members are to "give effect" to, *inter alia*, Article 33 which obligates Members to make available a term of protection for patents that does not end before 20 years from the date of filing.

6.88 By making available a term of protection that runs 17 years from the date of grant for those patents that were filed before 1 October 1989, Section 45 of Canada's *Patent Act*, on its face, does not meet the minimum standard of Article 33 in all cases. This is confirmed by the figures presented by Canada which show that there were still extant, as of 1 January 2000, approximately 66,936 Old Act patents, representing approximately 40 per cent of the total 169,966 Old Act patents, that would expire before 20 years from the date of filing.<sup>44</sup> It is irrelevant that a "very large number of" Old Act patents, representing 60 per cent of all Old Act patents, exceeded the protection term of 20 years from the date of filing by two to five years<sup>45</sup> and that 84 per cent of Old Act patents expire in the course of the nineteenth year following the application date<sup>46</sup> because the minimum standard for the term of protection under Article 33 is 20 years from the date of filing and we agree with the United States that, pursuant to this minimum standard for term of protection, even if there is only one patent that has a term of protection that ends before 20 years from the date of filing, Section 45 would be considered inconsistent with Article 33.<sup>47</sup>

6.89 As Article 33 obligates Members to make available a minimum term of protection that does not end before 20 years from the date of filing and the foregoing statistical figures showing that there are as many as 66,936 Old Act patents that existed as of the *TRIPS* application date, and were still in existence on 1 January 2000, that would expire before 20 years from the date of filing despite

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<sup>41</sup> Article 18 of the *TRIPS Agreement* provides that "[i]nitial registration, and each renewal of registration, of a trademark shall be for a term of no less than seven years."

<sup>42</sup> Article 26.3 of the *TRIPS Agreement*, in relation to industrial designs, provides that "[t]he duration of protection available shall amount to at least 10 years."

<sup>43</sup> Article 38 of the *TRIPS Agreement*, in relation to layout-designs of integrated circuits, provides in paragraph 1 that in some cases the term of protection "shall not end before the expiration of a period of 10 years" counted from a particular date and paragraph 2 provides that in other cases layout-designs "shall be protected for a term of no less than 10 years" from a particular date.

<sup>44</sup> Canada's First Submission, para. 45.

<sup>45</sup> Canada's First Submission, para. 42.

<sup>46</sup> Canada's First Submission, para. 43.

<sup>47</sup> The United States referred to a well-known antidepressant drug as evidence of a patent that expired before 20 years from the date of filing. The United States pointed out that the Canadian patent for that drug expired in August 1999 under the term of protection provided by Section 45 whereas it would not have expired until October 2000 if the term of protection ran until 20 years from the date of filing as required by Article 33 of the *TRIPS Agreement*. See U.S. Exhibit 2.

payment of all maintenance fees, we find on a preliminary basis that Section 45 is inconsistent with Article 33 of the *TRIPS Agreement*.<sup>48</sup>

(b) Consideration of Canada's equivalence argument

(i) *The term of "effective" protection or "exclusive privilege and property rights"*

6.90 Canada advanced the argument that Section 45 is in conformity and harmonious with Article 33 on the basis that 17 years of "effective" protection for the "exclusive privilege and property rights" conferred by Old Act patents are "equivalent or superior" to the term of "exclusive privilege and property rights" provided by Article 33 of the *TRIPS Agreement*.<sup>49</sup> Canada made such assertion based on the fact that the time-period between the filing date and issuance of patent necessarily erodes the term of patent protection in cases where, as in Article 33, the protection period is measured as of the filing date.<sup>50</sup> Since the time-period between the filing date and issuance of patent is on average five years in Canada, it was Canada's contention that a patent right holder will receive only 15 years of "exclusive privilege and property rights" under a system that grants a 20-year protection term as of the filing date whereas Section 45 provides a successful patent applicant with 17 years of constant protection for the "exclusive privilege and property rights".

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<sup>48</sup> The United States argued that Article 31(3)(b) of the *Vienna Convention* allows treaty interpreters to take into account "subsequent practice" to "establish the agreement of the parties regarding its interpretation" and referred to six developed country Members, including itself, that amended their laws to implement the *TRIPS Agreement*. In connection with "subsequent practice", the Appellate Body stated in *Japan – Alcoholic Beverages* that "the essence of subsequent practice in interpreting a treaty has been recognized as a 'concordant, common and consistent' sequence of acts...which is sufficient to establish a discernable pattern implying the agreement of the parties regarding its interpretation." For the purpose of this dispute, we do not consider it necessary to make a finding as to whether there is "subsequent practice" to determine the requirement under Article 33 of the *TRIPS Agreement* and to ascertain whether Section 45 of Canada's *Patent Act* is in conformity with Article 33.

<sup>49</sup> We note Canada's argument that the parties to the North American Free Trade Agreement ("NAFTA") accepted the substantive equivalence of the protection offered by two types of protection term. The relevant NAFTA provision cited by Canada states that "[e]ach party shall provide a term of protection for patents of at least twenty years from the date of filing or seventeen years from the date of grant." We do not consider that the NAFTA provision means that Section 45 of the Canadian *Patent Act* and Article 33 of the *TRIPS Agreement* have substantive equivalence of protection. In this regard, we note that the Panel in *United States – Restrictions on Imports of Tuna*, GATT Doc. DS29/R, 20 May 1994 (unadopted), stated, in relation to Article 31.3(a) of the *Vienna Convention*, the following:

"The Panel recalled that the Vienna Convention provides for a general rule of interpretation (Article 31) and a supplementary means of interpretation (Article 32). The Panel first examined whether, under the *general* rule of interpretation of the Vienna Convention, the treaties referred to might be taken into account for the purposes of interpreting the General Agreement. The general rule provides that "any subsequent agreement between the parties regarding the interpretation of the treaty or the application of its provisions" is one of the elements relevant to the interpretation of a treaty. However the Panel observed that the agreements cited by the parties to the dispute were bilateral or plurilateral agreements that were not concluded among the contracting parties to the General Agreement, and that they did not apply to the interpretation of the General Agreement or the application of its provisions. Indeed, many of the treaties referred to could not have done so, since they were concluded prior to the negotiation of the General Agreement. The Panel also observed that under the general rule of interpretation in the Vienna Convention account should be taken of "any subsequent practice in the application of the treaty which established the agreement of the parties regarding its interpretation." However, the Panel noted that practice under the bilateral and plurilateral treaties cited could not be taken as practice under the General Agreement, and therefore could not affect the interpretation of it. The Panel therefore found that under the general rule contained in Article 31 of the Vienna Convention, these treaties were not relevant as a primary means of interpretation of the text of the General Agreement."

<sup>50</sup> Canada's First Submission, para. 74; Canada's Response to Panel Question 21.

6.91 Canada claimed that since the time-period between the filing date and patent issuance date varies, the patent term of protection as contemplated by Article 33 is not a fixed minimum period of 20 years but "a variable period of less than 20 years".<sup>51</sup> Canada stated that the *TRIPS* negotiators were aware that the period of protection would be "a variable period of less than 20 years" based on the fact that Article 62.2 requires procedures for the grant or registration of intellectual property rights take place "within a reasonable period of time so as to avoid unwarranted curtailment of the period of protection."

6.92 There is no textual or contextual support for Canada's interpretation that Article 33 of the *TRIPS Agreement* requires Members to provide patent right holders with a term of "effective" protection or "exclusive privilege and property rights". The plain language of Article 33 states that the "term of protection available shall not end before the expiration of a period of twenty years counted from the filing date." To construe the language provided in Article 33 to mean a term of "effective" protection or "exclusive privilege and property rights" would require the treaty interpreter to read into the text words that are not there<sup>52</sup> and would be, as noted by the Appellate Body in *Japan - Alcoholic Beverages*,<sup>53</sup> contrary to the rule that "interpretation must be based above all upon the text of the treaty".<sup>54</sup> Canada's interpretation would engender unreasonable results that would allow a term of protection for patents that ends before 20 years from the date of filing to be in conformity with Article 33.

6.93 Canada also argues that it could maintain its Old Act term of protection of 17 years from the date of grant in implementing the *TRIPS Agreement* based on the freedom afforded to each Member by Article 1.1 "to determine the appropriate method of implementing the provisions of [the] Agreement within their own legal system and practice." Canada makes this argument because, in its view, the relevant "provisions of [the] Agreement" in this case only require a variable period of effective protection, which can be ascertained through a combined interpretation of Articles 33 and 62.2, and which overrides obligations concerning the dates of commencement or expiry.

6.94 We take a different view. Article 33 contains an obligation concerning the earliest available date of expiry of patents, and Article 62.2 contains a separate obligation prohibiting acquisition procedures which lead to unwarranted curtailment of the period of protection. We recognize that some curtailment is permitted by the text of these two provisions. However, Article 1.1 gives Members the freedom to determine the appropriate method of implementing those two specific requirements, but not to ignore either requirement in order to implement another putative obligation concerning the length of effective protection.

6.95 Furthermore, Article 62.2 does not support Canada's argument that its obligation is to make available a term of protection equivalent in overall length to a variable term of real or effective protection under the 20 years from the date of filing "formula". Paragraph 2 of Article 62 only deals with the "acquisition" of an intellectual property right and procedures for "grant or registration", which all refer to the commencement of the available period of protection and not to its expiry date. It recognizes some curtailment of the term of protection may occur due to a later commencement date, but not a reduction at any other point in that period, including its expiry. This applies *a fortiori* in light of the express requirement in Article 33 concerning the date of expiry. Canada also referred to paragraphs 1 and 4 of Article 62 which provide for procedures that can terminate protection of particular inventions, through default in payment of maintenance fees, revocation and cancellation,

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<sup>51</sup> Canada's First Oral Statement, para. 17; Canada's Second Oral Statement, para. 16.

<sup>52</sup> Appellate Body Report, *India - Quantitative Restrictions on Imports of Agricultural, Textile and Industrial Products*, WT/DS90/AB/R, adopted 22 September 1999, para. 94; Appellate Body Report, *EC - Measures Concerning Meat and Meat Products (Hormones)*, WT/DS26/AB/R, WT/DS48/AB/R, adopted 13 February 1998, para. 181.

<sup>53</sup> *supra* footnote 14, p. 11.

<sup>54</sup> [footnote original] *Territorial Dispute (Libyan Arab Jamahiriya/Chad)*, Judgment, (1994) I.C.J. Reports, p. 6 at 20; *Maritime Delimitation and Territorial Questions between Qatar and Bahrain, Jurisdiction and Admissibility*, Judgment, (1995) I.C.J. Reports, p. 6 at 18.

prior to expiry of the available term.<sup>55</sup> As such, those are precisely the procedures that are implied by the use in Article 33 of the word "available" and which are to be discounted in evaluation of the available term of protection. We therefore find that Canada's defence based on "equivalence" of terms has not displaced our finding that Section 45 is inconsistent with Article 33.

(ii) "Normal or average" pendency period

6.96 Canada referred to the "average" pendency period for New Act patents in support of its argument that the "effective" period of protection made available by Section 45 is equivalent or superior to the term of protection made available by Article 33 of the *TRIPS Agreement*.<sup>56</sup> We appreciate that this, together with the factors mentioned by both parties in their respective replies to question 1 from the panel, may assist us in the interpretation of the phrase "unwarranted curtailment" of the term of protection in Article 62.2. However, in view of our findings in paragraphs 6.94 and 6.95, we do not need to decide what would constitute such an "unwarranted curtailment".

6.97 We note that Canada referred to statistics as to the average length of pendency periods of Old Act patents, which we have quoted at paragraphs 2.6 to 2.11 of this Report, according to which approximately 60 per cent of Old Act patents and patent applications both at 1 October 1996 and again at 1 November 1999 had an available term expiring later than required by Article 33, while approximately 40 per cent did not. We also note that Canada emphasized that it did not argue that Section 45 was consistent with Article 33 of the *TRIPS Agreement* on the basis that an overall average of the terms of protection of Old Act patents and patent applications in force on the date of application of the *TRIPS Agreement* met the minimum standard of Article 33.<sup>57</sup> Nevertheless, we find it useful in the following paragraphs to dispel any notion that average figures can be used to maintain the equivalence argument, especially in view of the fact that Canada relies on the average pendency period of New Act patents to support its argument that the term of protection available under Section 45 is equivalent or superior to the term of protection made available in Article 33 and further in light of the fact that Canada uses the average pendency period of two to four years of Old Act patents to make the same claim in relation to Article 33.

6.98 We are mindful that the Panel in *United States - Section 337 of the Tariff Act of 1930* rejected "any notion of balancing more favourable treatment...against less favourable treatment" and its statement that more favourable treatment is only relevant to the extent that it always offsets differential treatment causing less favourable treatment.<sup>58</sup> Specifically, the Panel:

"...rejected any notion of balancing more favourable treatment of some imported products against less favourable treatment of other imported products. If this notion were accepted, it would entitle a contracting party to derogate from the no less favourable treatment obligation in one case, or indeed in respect of one contracting party, on the ground that it accords more favourable treatment in some other case, or to another contracting party. Such an interpretation would lead to great uncertainty about the conditions of competition between imported and domestic products and thus defeat the purposes of Article III."<sup>59</sup>

6.99 Disparate pendency periods exist among patents because the examination period required to review the criteria set forth in Article 27.1 for patentability varies from one field of technology to another. This variance also exists in Canada where the patent authority "normally took...two to four years to complete the examination process."<sup>60</sup> Based on simple arithmetic, if an Old Act patent took

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<sup>55</sup> Canada's Response to Panel Question 29.

<sup>56</sup> Canada's First Submission, paras. 78 and 81; Canada's First Oral Statement, paras. 22 and 26.

<sup>57</sup> Canada's Response to Panel Question 21.

<sup>58</sup> *United States - Section 337 of the Tariff Act of 1930*, BISD 36S/345, adopted 7 November 1989, paras. 5.14 and 5.16 ("*United States - Section 337*").

<sup>59</sup> *United States - Section 337*, para. 5.14.

<sup>60</sup> Canada's First Submission, para. 72.

two years to issue, its term of protection measured as of the date of filing would end 19 years, as opposed to 20, from the date of filing, which is the earliest available expiry date required by Article 33. To meet the standard enunciated in *United States - Section 337*, all Old Act patents would have to have a term of protection that did not end before 20 years from the date of filing. It cannot be assumed that all Old Act patents had a pendency period of three years or longer and therefore a term of protection that did not end before 20 years from the date of filing because an *average* figure of two to four years necessarily embraces shorter periods which result in patents with a term of protection that ends before 20 years from the date of filing. In fact, the parties agree that many Old Act patents, including many still in force, will expire before 20 years from the date of filing.<sup>61</sup>

6.100 Thus, even if Article 33 could be construed to allow Members to make available a term of "effective" patent protection or "exclusive privilege and property rights", we do not find tenable any argument that Section 45 made available a term equivalent or superior to the available term of protection mandated by Article 33 on the basis of an average pendency period and resultant expiry date of protection made available by Section 45. In relation to the equivalence argument, we find that the term of protection under Section 45 is inconsistent with the minimum standard of Article 33 of the *TRIPS Agreement* because, within the calculation of the average period of effective protection, there are Old Act patents with a term of protection that ends before 20 years from the date of filing.

(c) Consideration of Canada's "availability" argument

6.101 In determining whether Canada made available a term of protection that does not end before 20 years from the date of filing, we first examine the ordinary meaning of the word "available" in its context. We then consider whether the suggested delays result in "unwarranted curtailment" under Article 62.2 and constitute "unnecessarily complicated or costly" procedures under Article 41.2 which is incorporated by reference in Article 62.4. Subsequently, we evaluate the merit of Canada's argument that a term of protection that does not end before 20 years from the date of filing was available prior to the date of entry into force of the *TRIPS Agreement* in Canada.

(i) *Whether a term of protection that does not end before 20 years from the date of filing was "available" under Section 45 of Canada's Patent Act*

6.102 As a treaty interpreter's obligation is to first interpret the text based on its ordinary meaning within its context and object and purpose, the ordinary meaning of the word "available" as it is used in Article 33 is first considered. *Black's Law Dictionary* defines the word "available" as "having sufficient force or efficacy; effectual; valid"<sup>62</sup> and the word "valid" in turn means "having legal strength or force...incapable of being rightfully overthrown or set aside."<sup>63</sup> The dictionary meaning of the word "available" would suggest that patent right holders are entitled, as a matter of *right*, to a term of protection that does not end before 20 years from the date of filing.

6.103 We first note Canada's explanation that a patent applicant could obtain informal delays by simply asking the examiner to "retard the position of a particular application in the queue of those applications waiting examination."<sup>64</sup> These informal delays, according to Canada, were granted at the discretion of the patent examiner<sup>65</sup> without exception. Based on Canada's argument, a patent applicant would be required to resort to delay tactics to obtain the *TRIPS* mandated term of protection that does not end before 20 years from the date of filing. Although Canada stated that such delay requests have never been refused, it is apparent that the patent examiner had the discretionary authority to grant or not grant the necessary delay so as to allow a patent applicant to prolong the term of patent protection that does not end before 20 years from the date of filing. In short, these informal delays were not granted to Old Act patent applicants as a matter of right.

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<sup>61</sup> See paragraphs 2.8 and 2.10.

<sup>62</sup> *Black's Law Dictionary* (West Publishing Co., 1979), p. 123.

<sup>63</sup> *Ibid.*, p. 1390.

<sup>64</sup> Canada's Response to Panel Question 31(a).

<sup>65</sup> Canada's Response to Panel Question 31(b).

6.104 Canada argued that, as an alternative to informally asking for delays from a patent examiner, there are statutorily mandated delays which a patent applicant can use to obtain a protection term of 20 years from the date of filing.<sup>66</sup> According to Canada, Section 30(1) provides for 12 months to complete an application after filing and six months to prosecute the application after a notice that an examiner has taken action. An application is deemed abandoned if these two deadlines are not met. Section 30(2) allowed an applicant a further delay by providing a period of 12 months to have an abandoned application reinstated. When 12 months for completing an application, another 12 months for reinstatement in the event of failure to complete an application within the time-limit, six months for the prosecution of the application and a further 12 months for reinstatement of the application in case of failure to prosecute within the six-month period are added, the total period of delay is 42 months, or 3.5 years.

6.105 A second statutory delay is available under Section 73 of the Old Act. That section provides a period of up to six months to pay the prescribed fees in a notice of allowance on penalty of forfeiture. A forfeited application can, on the payment of prescribed fees, be restored within six months of an initial act of default in timely payment. Thus, another year of delay is available from the date of filing. When the delays available under Sections 30 and 70 are added to the 17-year term of protection for patents, the total delay amounts to a statutorily available term of 21.5 years from the date of filing. The total period of delay of 54 months does not include the time required for a patent examiner to complete the examination of the application and additional delays that may result from request for further information.

6.106 Based on the statutory delays under Sections 30(2) and 73, a patent applicant would actually have to abandon his application, reinstate the abandoned application and then again forfeit the application and then reinstate it again for the third time to obtain the *TRIPS* mandated term of protection that does not end before 20 years from the date of filing. Since the patent applicant cannot know the time-period required for the examination of the patent application by an examiner, the applicant cannot be certain about how many times the application would have to be abandoned to obtain a term of protection that does not end before 20 years from the date of filing.

6.107 It is apparent from the statutory text that the power to reinstate an abandoned application under Section 30(2) was only available where the applicant's failure to meet the deadlines of the Old Act "were not reasonably avoidable". Canada admits that the Commissioner of Patents could have refused to reinstate an application where an applicant revealed that his motive in not meeting the deadlines of the Old Act was to delay issuance of the patent to obtain a term expiring 20 years from the date of filing. Such an applicant was therefore effectively required to conceal his motive and to state another explanation for his failure to meet the deadlines in order to be entitled to reinstatement of the application. Nonetheless, Canada stated that no such request for reinstatement was ever refused.

6.108 The use of the word "may" in the statutory text of Section 73 indicates that the Commissioner of Patents had a discretion to reinstate forfeited applications, which he could refuse to exercise in certain circumstances.<sup>67</sup>

6.109 We find that the discretionary nature of both a patent examiner's authority to grant informal delays as well as the Commissioner's power to grant statutory delays so as to allow patent applicants to obtain a term of protection that does not end before 20 years from the date of filing does not make available, as a matter of right, to patent applicants a term of protection required by Article 33.

6.110 In addition to the interpretation that patent right holders are entitled to the term of protection for patents that does not end before 20 years from the date of filing under Article 33 of the *TRIPS Agreement*, we note that the respective use and omission of the word "available" in other provisions

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<sup>66</sup> Canada's First Oral Statement, para. 42.

<sup>67</sup> We deal with Canada's argument that there was no real discretion under Section 73 at paragraph 6.118.

on terms of protection throughout the Agreement provides a plausible contextual explanation for its use in Article 33. In our view, the word "available" in Article 33 probably reflects the fact that patent right holders must pay fees from time to time to maintain the term of protection and that patent authorities are to make those terms "available" to patent right holders who exercise their right to maintain the exclusive rights conferred by the patent. Such interpretation is supported by Article 26 of the *TRIPS Agreement*, which governs the term of protection of industrial designs, and which uses the word "available" to reflect the fact that right holders of industrial designs in some Members must pay maintenance fees to maintain the term of protection whereas "available" is not used in Article 18 in connection with the term of protection of trademarks because the seven-year term of protection refers to the initial term of registration during which time there is no need for the right holder of a trademark to pay fees to renew or maintain the protection term. Article 38.1 concerning the term of protection in respect of layout-designs requiring registration does not contain the word "available" because the ten-year protection term does not require right holders to renew or maintain the protection term during that ten-year period. Similarly, the word "available" is not used in respect of terms of protection governing copyright and related rights and layout-designs not requiring registration as a condition for protection because there are no formal requirements to obtain protection.

6.111 In light of the various reasons set out above, we confirm our finding that a term of protection that does not end before 20 years from the date of filing is not available under Section 45 of Canada's *Patent Act* and is therefore inconsistent with Article 33 of the *TRIPS Agreement*.

(ii) *Whether resorting to informal and statutory delays is consistent with Article 62*

6.112 In light of the fact that Canada argued that a patent term of 17 years from grant could be considered consistent with Article 33 in view of the provisions on acquisition and maintenance procedures contained in Part IV of the *TRIPS Agreement* that enable a certain amount of delay in granting rights, we are of the view that the procedures on which Canada relies should also be assessed in relation to Part IV of the *TRIPS Agreement* which applies to patents granted after the date of application of the Agreement for the Member in question.

6.113 In addition to lacking textual support and imputing words and concepts that were not intended, requiring applicants to resort to the suggested delays to obtain a term of protection that does not end before 20 years from the date of filing also defeats the notion of promoting prompt and diligent prosecution and examination of patents as encapsulated in Articles 33, 62.1 and 62.4.

6.114 Article 62.1 provides:

"Members may require, as a condition of the acquisition or maintenance of the intellectual property rights provided for under Sections 2 through 6 of Part II, compliance with *reasonable procedures* and formalities. Such procedures and formalities shall be consistent with the provisions of this Agreement." (emphasis added)

6.115 While it may be true in many cases that an applicant can procure a term of protection that does not end until 20 years from the date of filing by resorting to procedural delays, the types of procedural delays Canada described do not seem to constitute reasonable procedures because they are not tied to valid reasons required to ensure a proper examination but are rather purely related to artificially fulfilling the requirement of Article 33. In our view, requiring applicants to resort to delays such as abandonment, reinstatement, non-payment of fees and non-response to a patent examiner's report for the purpose of simply obtaining a term of protection that does not end before 20 years from the date of filing would constitute unreasonable procedures that are inconsistent with Canada's obligation under Article 62.1.

6.116 Turning to Article 62.4, we note that it provides:

"Procedures concerning the acquisition or maintenance of intellectual property rights...shall be governed by the general principles set out in paragraphs 2 and 3 of Article 41."

Paragraph 2 of Article 41 provides:

"Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be *unnecessarily complicated or costly*, or entail unreasonable time-limits or *unwarranted delays*." (emphasis added)

6.117 In our view, requiring applicants to resort to delays such as abandonment, reinstatement, non-payment of fees and non-response to a patent examiner's report would be inconsistent with the general principle that procedures not be unnecessarily complicated as expressed in Article 41.2 and applied to acquisition procedures by Article 62.4. By their very nature, the delays, which are not tied to any valid reason related to the examination and grant process, would be inconsistent with the general principle that procedures not entail "unwarranted delays" as expressed in Article 41.2 and applied to acquisition procedures by Article 62.4.

6.118 We noted in paragraphs 6.107 and 6.108 above that the Commissioner's powers to reinstate and restore applications under Section 30(2) and Section 73 were discretionary at all material times and not available as a matter of right to patent applicants. Canada argued, however, that despite the use of the word "may" in Section 73, the payment of the necessary fee enabled the applicant to obtain reinstatement of his patent application as a matter of right. In other words, had the Commissioner exercised his discretion to refuse an application for reinstatement, an applicant would have been required to pay an additional fee and pursue legal proceedings against the Commissioner in a court of law in order for a term of protection expiring 20 years from the date of filing the application to be available. We find potential requirements that an applicant commence proceedings for a writ of mandamus and pay additional fees to be in breach of the general principle that procedures not be "unnecessarily complicated or costly" as expressed in Article 41.2 and applied to acquisition procedures by Article 62.4.

6.119 A patent applicant should not be expected to resort to procedural tactics that produce results inconsistent with Article 62.1 and 62.4 in order to ensure its rights pursuant to Article 33. As such, these procedures cannot be relied upon in order to defend a claim of violation of another Article of the Agreement.

(iii) *Whether a term of protection that does not end before 20 years from the date of filing can be made "available" in accordance with Article 33 prior to the date of application of the TRIPS Agreement*

6.120 It is agreed that this dispute only concerns patents which were granted prior to 1 October 1992 as any Old Act patents granted later would be entitled to a longer term of protection than the *TRIPS Agreement* requires (see paragraph 6.6 above). Given that Canada's argument that the requisite patent term was "available" hinges on procedures prior to the grant of a patent, it is apparent that the alleged availability is referable to the options available to patent applicants prior to 1 October 1992, i.e., prior to the entry into force of the *TRIPS Agreement*. Canada takes the view that, where Article 33 was applicable to inventions under protection in developed country Members on 1 January 1996, it would be "sufficient if the term [of protection] was available at the time the application was filed".<sup>68</sup> We do not agree with this view. According to Article 65.1, Canada became obligated to apply Article 33 on 1 January 1996. In our view, no Member can implement an obligation by reference to a state of affairs which ceased to exist in respect of Old Act patents at the

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<sup>68</sup> Canada's Response to Panel Question 33.



time the obligation to make available a term of protection that does not end before 20 years from the date of filing became applicable. Consequently, the alleged availability in Canada prior to 1 October 1992 of a term of protection that complied with the requirement described in Article 33 is insufficient to discharge Canada's obligation to implement Article 33 from 1 January 1996.

6.121 In the same way, even though Old Act patent applicants prior to 1 October 1992 were able to obtain a patent term that expired 20 years or more after the date of filing on the basis of informal delays in the patent prosecution process, and the statutory procedures of reinstatement and restoration, they could not have known that they were entitled to have such a term of protection made available to them because the *TRIPS Agreement* had not yet entered into force or even been finalized. Therefore, the decision of many of those patent applicants not to seek these delays was made without that knowledge, and cannot be characterized as a choice to forego the right to a term of protection expiring later than is required by the *TRIPS Agreement*.

## VII. CONCLUSIONS AND RECOMMENDATION

7.1 In light of the findings above, we conclude that:

- (i) the reference to "subject matter...which is protected" on the date of application of the *TRIPS Agreement* in Article 70.2 includes inventions that are currently protected by patents in accordance with Section 45 and that were protected by patent on 1 January 1996, and this is not affected by Article 70.1; and
- (ii) Section 45 of Canada's *Patent Act* does not make available a term of protection that does not end before 20 years from the date of filing as mandated by Article 33.

7.2 The Panel therefore recommends that the Dispute Settlement Body request Canada to bring its measures into conformity with its obligations under the WTO Agreement.