

8 INTELLECTUAL PROPERTY ISSUES IN PREFERENTIAL TRADE AGREEMENTS: THE OPTIMAL MODEL OF COORDINATION

*Dr Tatiana Isachenko

ABSTRACT

In 2012, Russia successfully completed the WTO accession process, one of the most remarkable events in Russian foreign relations over the past decades. At the same time, during the last three years, Russia has been actively developing another important area of its trade policy – Euro-Asian Economic integration. Currently, one of Russia's main strategic problems is finding the optimal balance between multilateral and regional commitments. The problem becomes even more complicated when we take into consideration that among the three members of the Eurasian Economic Community (EurAzEC), only Russia is a WTO Member, meaning that it has rights and obligations defined by the Working Party Report and Accession Protocol.

The basic document that determines the relevance of the EurAzEC, as a Common Economic Area, to the WTO system is the International Treaty on the Functioning of the Customs Union in the Multilateral Trading System. Nevertheless, intellectual property rights (IPRs) are not completely covered by the document and there is no conformity between EurAzEC members in terms of intellectual property (IP) national legislation provisions and their enforcement. The forthcoming expansion of the EurAzEC would bring new problems that demand very accurate and detailed study of IP policy coordination between members of the regional and preferential trade blocks.

Keywords: intellectual property rights, preferential trade agreements, EurAzEC

In modern economies, IP protection provisions serve as a background and prerequisite for technological innovation and artistic creativity that provide the main competitive advantages of these economies. As mentioned by Zegelman, more and more businesses

each day rely on intangible sources such as patent rights, trademarks and copyrights.¹ Intellectual property rights and their proper protection are the basis for the operation of the majority of the world's major industries. For example, according to analysts at PricewaterhouseCoopers (PwC), more than a quarter of the US GNP comes from IP-based activity. The media and entertainment sectors— prime examples of IP-driven industries—were worth USD 1.8 trillion worldwide in 2009 and accounted for 5 per cent of global GDP.² According to another source, nearly 76 per cent of Fortune 100's total market capitalization is represented by intangible assets such as patents, copyrights and trademarks.³

By 2000, IPRs became an integral, but at the same time independent sphere of international economic relations. According to Richard Baldwin, most technologies are firm-specific, so internationalizing the value and supply chains often involves the transfer of know-how. While technology transfer is an ancient story, ICT facilitated control that reduced the costs and risks of combining developed countries' economy and technologies with developing nations' labour.⁴ The simple exchange of scientific and engineering achievements has transformed into deep collaboration and competition between R&D companies and corporate units. Furthermore, for the sake of the management of intangible assets, protection of brands appeared to be one of the key elements of a company's success and market share, as well as geographical indicators and trademarks.

The formation and development of a patent system that achieved great progress during the 20th century was not enough to cover and protect competitive advantages and their fair use. The first key international agreements for the protection of IPRs, such as the Berne Convention for the Protection of Literary and Artistic Works (1886), and the Paris Convention for the Protection of Industrial Property (1883)—as revised in Brussels (1900), Washington (1911), The Hague (1925), London (1934), Lisbon (1958), and Stockholm (1967), and in later venues—are not completely relevant to the current stage of development and do not fully provide the necessary degree of protection to IPR holders. These international conventions do not provide means to

* Dr Tatiana M. Isachenko (Russia) is Associate Professor in the Department of International Economic Relations at the Moscow State Institute of International Relations (MGIMO University). She holds a Ph.D in International Economics from the Russian Academy of Sciences and a Doctoral Degree in the same field from MGIMO University. Her areas of expertise and teaching are Trade Policy, Regional and Preferential Trade Agreements, and the Multilateral Trading System. She also works as an expert for several working groups and committees on Russian accession and participation in the WTO. She has participated in a trade policy course at the Harvard Kennedy School of Government (United States) and Carleton University (Canada), and conducted research at the World Bank Institute and European Commission.

¹ Julian Zegelman (2009) Researching Intellectual Property Law in the Russian Federation (2009). WIPO
<<http://www.ilrx.com/node/687/print>>

² Global Entertainment and Media Outlook 2010-2015. Events and Trends.PwC.

<http://www.pwc.tw/en_TW/tw/.../events.../e250.pdf>

³ Subash K Bijlani (2003) 'Developing an IP Strategy and Integrating IP in Your Business Plans. Training Course for Asia and The Pacific Region on Doing Business with Intellectual Property
<http://www.wipo.int/export/sites/www/sme/en/activities/meeting/singapore_03/singapore_bijlani_9.pdf>

⁴ Richard Baldwin, Global Supply Chains: Why They Emerged, Why They Matter, and Where They Are going. (CTEI Working Papers, Geneva Graduate Institute. CTEI-2012-13).

protect IP assets against possible misappropriation and unlawful uses either. However, all these 'gaps' are successfully filled by the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement) that became an integral part of the Multilateral Trading System (MTS).

As mentioned before, the development of global supply chains (GSC) and global value chains (GVC) increased the urgency of adequate protection of IP and marked out new challenges in this area. Analysing recent studies by R. Baldwin and research by J. Gonzales-Lopes on global value chains and their influence on world trade⁵, one could make a justified conclusion that the level of IP development is a key factor which determines what a country will produce at what level of technological sophistication. Under the GSC and the GVC, cross-border transfer of know-how and IP, as well as more tacit forms such as managerial and marketing know-how, together with consideration for the appropriate level of their protection, became the decisive factors for a country's integration into the world economy.

Another factor that influences the urgency and importance of the IPR protection system is the proliferation of regional trade agreements (RTAs) and preferential trade agreements (PTAs). The proliferation of regionalism continues to evoke challenges for international trade and its regulation system. Analysing the development of regional cooperation in the last decade allows us to make some conclusions:

- There is a strong shift from non-reciprocal agreements to reciprocal ones, and the industrial countries—mainly those of the European Union—have turned to RTAs on the basis of reciprocity of preferences in trade, even with developing partners;
- the majority of the FTAs concluded during the past decade (for example, European Union-MERCOSUR, European Union-Thailand, European Union-South Korea, United States-Singapore etc.) and under negotiation (for example, European Union-United States FTA, TPP) can hardly be called 'regional,' but are rather 'cross-regional,' since they establish free trade between countries of different regions and continents.

This allows us to call all these agreements 'preferential,' having in mind that the scope and coverage of preferences go far beyond tariff instruments and sometimes involve more sophisticated issues, including technology and knowledge transfer. The intensive development of world knowledge markets, as influenced by various factors, creates a background for the new developments in trade policy. These trade developments provoke new debates about how the transfer of IP in PTAs should be organized and how IP rights should be protected if they are country and/or company specific.

Provisions of adequate IPR protection have been a condition for integrating Russia into the international trading system. For that purpose, the improvement of the national system of legal protection and transfer of intellectual property must be supported and updated in compliance with multilateral, national and regional rules.

During the past ten years, Russia was rapidly catching up with countries in terms of economic growth. Furthermore, Russian enterprises and the Russian State have been in desperate need of investment in advanced technologies for their further development. That means that the country could and should pay royalties for the IP products they wish to use. After 1991, though improvements in IP laws have been made corresponding to the country's political evolution, the most serious challenge remains the enforcement of IPRs.

In 2012, Russia successfully completed the WTO accession process, which was considered to be a remarkable achievement in Russian foreign relations. During the accession process, IPRs were one of the major concerns for WTO members of the Russian Accession Working Party—namely, the United States and the European Union. The starting point for negotiations was an issue that the legal provisions for the enforcement of IPRs in Russia do not precisely fit into the framework of the TRIPS Agreement. In the Working Party Report, these issues are covered by paragraphs 1202-1354.

The first checklist on TRIPS enforcement measures was circulated among Working Party members in 2007. Since that time, it has been revised several times, and the final statement was presented in 2011 in the document 'Membership of International Intellectual Property Conventions and of Regional or Bilateral Agreements.'⁶ The part of the Working

⁵ Richard Baldwin and Javier Lopez-Gonzalez, 'Supply-Chain Trade: A Portrait of Global Patterns and Several Testable Hypotheses' (NBER Working Papers' 2013).

⁶ 'List of Treaties Concerning Intellectual Property Issues to which the Russian Federation Is a Party' (as of 4 October 2007) 7 November 2007, JOB(07)/171; Membership of International

Party Reports that deals with the trade-related IP regime is one of the most detailed sections of the report and contains all the necessary provisions such as:

- General provisions (outlook of Russian legislation on IPRs, including essential provisions on enforcement of thereof—in particular, remedies that are available through civil actions);
- participation in international treaties;
- standards concerning the availability, scope and use of IPRs; and
- enforcement (both judicial and administrative procedures).

The latest version of the commitments considered that during the last three years Russia has been actively developing another important area of its trade policy – Euro-Asian Economic integration. From the very beginning of the Euro-Asian integration process, IP issues have been identified as important aspects of the integration of development. However, as in any field, the work should be based on experience of countries that have attained a similar stage of development. Let us take, for example, the situation with border measures for IPR enforcement.

The section of the Working Party report that deals with border measures includes all provisions which have to be realized under conditions prevalent in the Customs Union (CU). Since 1 July 2010, the Russian Federation has applied border measures pursuant to Chapter 46 of the CU Customs Code. Several adjustments were made accordingly and consequently, consistent with the procedures set out in Chapter 46, the customs authorities of the Russian Federation (the Federal Customs Service of the Russian Federation (FCS)) were authorized to take action to protect IPRs, as prescribed in a customs register maintained by the FCS and in the unified customs register of IPRs of the CU Parties. However, under the CU Customs Code, only goods containing IP were included in the customs register of the Russian Federation and the unified CU register of IP.

At the same time, some members of the Working Party expressed a concern that, considering the risk posed by the growing number of IPR infringements other than copyright and trademark, the coverage of protection should be extended to other types

thereof such as infringements of designs, patents and patented plant varieties. In spite of the fact that Article 51 of the WTO TRIPS Agreement did not require application of border measures in respect to enforcement of IPRs other than copyright and trademarks, more should therefore be done to improve the regional rules and bring them into compliance with international regimes. This inevitably leads to the conclusion that the experience of countries that have attained a similar stage of development and integration should be studied properly. Currently, however, there are a variety of draft documents in all spheres of IP protection, which causes further confusion; hence, it is not completely clear whether there is any optimal well-prepared model of coordination.

Empirical evidence provides examples of IPR regulation under two types of agreements. One example concerns IP provisions in European Union FTAs and the implications for developing countries. The recent paper by Maximiliano Santa Cruz addresses the scope, content and potential impact of proposed IP provisions in Economic Partnership Agreements (EPAs) with the European Union.⁷ Another interesting study by Raymundo Valdés and Runyowa Tavengwa, 'Intellectual Property Provisions in Regional Trade Agreements', documents the number of RTAs in which IP protection provisions are included.⁸

However, there is another issue that has not received detailed analysis yet, namely, that IPR protection is not in the FTA frame, but in the integration block. But all these studies do not examine the situation where current members of the integration block and/or RTA/PTA were once part of a single economic and legal system, and where therefore current legislation and practice are based on common principles as variously interpreted over the past 20 years. The problem becomes further complicated if we take into account that among three members of the economic block, only Russia is a WTO Member, which means that Russia has rights and obligations defined by the Working Party report and Accession Protocol. Therefore, at the current stage of development, the most urgent problem of Russian economic strategy is to find the optimal balance between multilateral and regional commitments.

The 'designers' of Euro-Asian integration argued that the exemplar for block creation is the European

Intellectual Property Conventions and of Regional or Bilateral Agreements, 17 January 2011, JOB/ACC/16.

⁷ Maximiliano Santa Cruz S. 'Intellectual Property Provisions in European Union Trade Agreements (ICTSD Intellectual Property and Sustainable Development Series'. (ICTSD Programme on IPRs and Sustainable Development ICTSD Issue Paper).

⁸ Raymundo Valdés and Runyowa Tavengwa, 'Intellectual Property Provisions in Regional Trade Agreements' (WTO 2012).

Union. In order to understand the problem, let us then turn to the EU experience. The fragmentation of IPRs in EU member countries had serious implications for growth, job creation and competitiveness. Licensing transactions have always been impaired by high costs, complexity of administrative procedures, and legal uncertainty for the creators, users, and consumers of IP. Innovative SMEs face the most serious implications derived from the lack of IP strategy coordination and unification.

The most updated information on the European Union's IP policy coordination was received from communication with the Commission of the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions, which was about 'A Single Market for Intellectual Property Rights'.⁹ According to that information, the IP strategy aims at modern, integrated European IPR regimes that will make major contributions to growth, sustainable job creation, and competitiveness of the economy. Those are key objectives of the EU 2020 agenda and the Annual Growth Survey which are considered essential for sustaining the European Union's recovery from economic and financial crisis.

From the EU experience, we notice that they are principally focused on the creation of the European patent system, since patent protection is essential for many core industries, including life and citizens protection. Another important issue is brand protection, because 'the protection of brand equity stimulates investment in the quality of products and services by helping the customer identify the relevant producer of goods or services, particularly in sectors which rely heavily on brands and customers' brand loyalty'.¹⁰ However, the enforcement of IPRs even within Europe still remains imperfect. The reform of the patent system will require intensive work. Experts believe that the current European patent system is complex, fragmented and costly: obtaining a European patent effective in only 13 member states can cost up to ten times more than a US patent. For this very reason,

work is underway in the European Union to create unitary patent protection for all member states.¹¹

The effectiveness of the EU IP system involves a lot of efforts towards the unification of the national trademark registration in EU member states. The system has now been harmonized for almost 20 years, and the Community trademark was established 15 years ago. In the near future, special attention will be paid to the creation of a comprehensive framework for copyright in the digital single market and European copyright governance and management. An important outcome from the study of EU experience is the implementation of the Berne 'Three-Step Test'.

Currently, a two-level system of protection for IPRs exists in the EurAzEC: protection is provided for IP identified by: (1) customs registers of state-members of the Customs Union (national registries of Belarus, Kazakhstan and the Russian Federation); and (2) the unified customs register of IPRs of state-members of the Customs Union. Measures for the protection of IPRs apply to goods containing objects of copyright and related rights and to trademarks and services marks, which are included in the unified customs register of IP.

As far as the specific features of the CU IP area are concerned, they could be divided into two blocks. The first block involves problems of a practical nature, especially counterfeit products; the second block encompasses problems related to the harmonization of legislation. The largest complexities arise in connection with the regulation of so-called 'Soviet' brands. Besides, the issue of IP protection has 'internal' and 'external' aspects.

Among 'internal' aspects, we could emphasize the following. The creation of the Customs Union between Russia, Belarus and Kazakhstan has provoked a lot of debate about the IP rights protection system. With the opening of borders these three countries are faced with such important problems as the 'duplication' of trademarks, the history of which has its roots back in the USSR period. Besides, in the Soviet Union there were only about 1,500 trademarks; for other cases, it was more a question of technology or recipe. As a result, there are situations when in different countries similar trademarks were registered. Customs could not complete customs clearance for a product or require consent from the owner of rights in their country.

⁹ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions, 'A Single Market for Intellectual Property Rights', Brussels, 24.5.2011COM(2011) 287 final.

¹⁰ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions, 'A Single Market for Intellectual Property Rights' Brussels, 24.5.2011COM(2011) 287 final.

¹¹ Council Decision 2011/167/EU of 10 March 2011 authorizing enhanced cooperation in the area of the creation of unitary patent protection, OJ L 76, 22.3.2011, p.53.

After the creation of the CU and the abolition of customs clearance a new problem appeared: the state continues to provide legal protection for their trademarks. However, products bearing the same trademark originating from a neighbor country still appear on the markets. Above all, this situation occurred with food and tobacco products. There has been consequent competition between 'Soviet brands.' It is therefore critical to introduce the concept of one trademark in a single economic space. The improvement of the situation could benefit significantly from the participation of Russia in the Madrid and Lisbon Unions.

To solve these problems, the Eurasian Economic Commission, as the main supranational CU regulatory body, has adopted several documents and created the Advisory Committee on Intellectual Property. The Advisory Committee was created by the Board of the Eurasian Economic Commission and is the main institution responsible for the elaboration of proposals on the safety and protection of IP, as well as being responsible for consultations with the state-members of the CU and the EurAzEC Common Economic Area. The activity of the Committee is aimed at the harmonization and improvement of legislation on protection and enforcement of IPRs, including the definition of the principle of exhaustion of exclusive rights to trademarks, reconciling the use of identical trademarks—including trademarks registered by different owners in the former USSR—and coordination of the work of organizations for the collective management of copyright and related rights. EurAzEC members also agreed to draft a unified customs register of IP objects.

Another problem concerns the Soviet origins of the patent system creation. During the Soviet period, the country developed its industrial base and registered a significant number of patents.

Among CU members, Russia has been the main producer and borne the main responsibility for the regional (CU) IPR protection system in its role and status as the most interested country. Besides, taking into consideration the scale of the Russian market and Russian WTO membership, it is clear that the main focus must be concentrated on Russian legislation and its possible application in the regional rules and practices.

The 'external' aspects are concentrated on two issues: (1) compliance of internal rules with WTO principles and commitments; and (2) protection of foreign IP rights. The basic document that determines the relevance of the EurAzEC as a Common Economic Area for the WTO system is the International Treaty on the Functioning of the

Customs Union in the Multilateral Trading System. Nevertheless, IPRs are not completely covered by this document and there is no conformity between EurAzEC members in terms of IP national legislation provisions and their enforcement. The forthcoming expansion of the EurAzEC will bring new problems which will demand very accurate and detailed study of IP policy coordination between members of the regional and preferential trade blocks.

Thus another set of problems deals with protection of foreign IP on the CU market. All the CU members became USSR successor-states in terms of obligations under international IP conventions. There are still areas, however, that can be clarified and improved. For example, the activity of foreign investors could be greatly facilitated by the introduction of a unified customs register and unification of national rules. Today, to have protection throughout CU territory, a company must be registered in the patent offices of the three countries and then apply to their customs registers—that is, six separate actions must be completed.

Another relatively new issue arises from the so-called 'parallel import'. Currently there is a regional principle of exhaustion of rights: that is, what has entered into circulation on the territory of one of the three countries could be freely sold on the regional market. Take the case of Mercedes-Benz, for example; currently, in order to introduce its products, permission is required from the CU. If parallel imports are allowed, no permission is required. On the one hand, it means more competition and may result in a decrease in prices. On the other, there is a risk of decreasing quality. Besides, the prohibition of parallel imports provides more protection for foreign investors.

One example is the BMW plant in Kaliningrad. The German company would like its products to be protected from imported goods from foreign countries bearing a similar brand. In this case, the European approach could be applied: there is indeed the regional principle of exhaustion of rights, but for some non-high-tech consumer goods, parallel imports are allowed. Custom Union members agreed to create a working group to discuss this issue and find an appropriate solution.

The future of the CU IP protection system depends significantly on the realization of the Agreement on Common Regulatory Principles for the Protection and Enforcement of Intellectual Property, signed in 2010. As stipulated in the Agreement, it is aimed at the unification of national legislation on IPR protection and enforcement (Article 1) of the legislation and the coordination of the activity in

WIPO and other international organizations and conventions (Articles 2 and 3).

The above analysis provides evidence that a lot still should be done in order to make the system effective, and that best world practices should be analysed and applied with a clear understanding of nation-specific, institutional and organizational adjustments. The creation of a Euro-Asian Common Economic Space and deeper integration between countries would provide a more solid basis for that purpose. In case of the further expansion of the regional block, some new problems, mainly in terms of control and coordination, may arise. We must not forget that at the heart of everything is knowledge. Thus, the problem of deeper understanding and expertise in the field of IP regulation remains to be resolved in all CU countries. Since the beginning of the 1990s, Russia has evolved an excellent school for education and training of managers, taking into account existing international experience and the specifics of Russian enterprises. At the same time, Russian education is lacking experts for government and business in the development and implementation of trade policies, and also WTO and WIPO regulation. It means that special training and educational programmes should be developed in the region.

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