WORLD TRADE ORGANIZATION

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CANADA – TERM OF PATENT PROTECTION

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

Award of the Arbitrator
Claus-Dieter Ehlermann

I. Introduction

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

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

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

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

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[1]WT/DS170/R.

[2]WT/DS170/AB/R.

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

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

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

[6]*Ibid.*

II. Arguments of the Parties

A. *Canada*

5. Canada requests the Arbitrator to fix the "reasonable period of time" at 14 months and two days, so that the "reasonable period of time" will expire on 14 December 2001, that is, the last day the Canadian Parliament is scheduled to sit before its Christmas recess in 2001.

6. Canada submits that compliance will require amending its *Patent Act*.[7] Past arbitrations have established that a legislative change is likely to be more time-consuming than an administrative change. Canada also submits that, to comply with the WTO ruling in this dispute, it needs to amend not only Section 45, but also Sections 78.1, 78.2 and 78.5 of its *Patent Act*, as well as Section 46 of the "Old Act", that is, Section 46 as it read before 1 October 1989.

7. Canada notes that there have been relatively few arbitrations to date under Article 21.3(c) of the DSU in which implementation of the recommendations and rulings of the DSB required legislative change. In the arbitration award in *Japan – Taxes on Alcoholic Beverages* ("*Japan – Alcoholic Beverages*"), the arbitrator referred to the guideline of 15 months in Article 21.3(c) of the DSU and stated that he had not been persuaded by the particular circumstances cited by the parties, to justify a departure of the 15-month guideline either way.[8] In *European Communities – Regime for the Importation, Sale and Distribution of Bananas* ("*European Communities – Bananas*"), the arbitrator ruled in a similar manner as in the previous case and awarded the European Communities a period of 15 months and five days to implement the recommendations and rulings of the DSB.[9] The arbitrator did not find any particular circumstances that justified deviation from the guideline. In *EC Measures Concerning Meat and Meat Products (Hormones)* ("*European Communities – Hormones*"), the arbitrator arrived at a similar result and awarded the European Communities 15 months.[10] Again, the arbitrator did not find any circumstances that justified deviation from the guideline.

8. Canada notes that in *Korea – Taxes on Alcoholic Beverages* ("*Korea – Alcoholic Beverages*"), the arbitrator granted Korea 11 months and two weeks.[11] According to Canada, Korea

[7]Canadian *Patent Act*, R.S.C., 1985, c.P-4, s.45.

[8]Award of the Arbitrator under Article 21.3(c) of the DSU, WT/DS8/15, WT/DS10/15, WT/DS11/13, 14 February 1997, para. 27.

[9]Award of the Arbitrator under Article 21.3(c) of the DSU, WT/DS27/15, 7 January 1998, para. 19.

[10]Award of the Arbitrator under Article 21.3(c) of the DSU, WT/DS26/15, WT/DS48/13, 29 May 1998, para. 48.

[11]Award of the Arbitrator under Article 21.3(c) of the DSU, WT/DS75/16, WT/DS84/14, 4 June 1999, para. 48.

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

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

10. Canada also submits that in *United States – Section 110(5) of the US Copyright Act* ("*United States – Section 110(5)*") the arbitrator set the "reasonable period of time" at 12 months, without explaining his rationale.[16] According to Canada, the arbitrator dismissed the relevance of "controversy", in the sense of domestic "contentiousness", as a relevant consideration in determining the "reasonable period of time". Canada submits that the arbitrator erroneously relied on a statement of the arbitrator in *Canada – Patent Protection of Pharmaceutical Patents* ("*Canada – Pharmaceutical Patents*").[17] In Canada's view, the arbitrator should have taken into account that the legislative process in a democratic state inevitably involves debate. Such legislative debate will be more intense and longer when there are competing legislative approaches for the implementation of the recommendations and rulings of the DSB. Canada adds that it is important to emphasize that it is not so much the "controversy" or the "contentiousness" of the measure as such that should justify allowing more time than would otherwise be the case, but rather the inherent necessity of providing

[12]Award of the Arbitrator, *Korea – Alcoholic Beverages*, *supra*, footnote 11, para. 46.

[13]*Ibid*., para. 42.

[14]Award of the Arbitrator under Article 21.3(c) of the DSU, WT/DS87/15, WT/DS110/14, 23 May 2000, para. 46.

[15]*Ibid*., para. 43.

[16]Award of the Arbitrator under Article 21.3(c) of the DSU, WT/DS160/12, 15 January 2001, para. 47.

[17]The arbitrator stated:

> I see nothing in Article 21.3 to indicate that the supposed domestic "contentiousness" of a measure taken to comply with a WTO ruling should in any way be a factor to be considered in determining a "reasonable period of time" for implementation.

Award of the Arbitrator under Article 21.3(c) of the DSU, WT/DS114/13, 18 August 2000, para. 60.

adequate time for debate when legislative choices need to be made in a democratic system of government.

11. Canada further recalls that in the *Canada – Certain Measures Concerning Periodicals* dispute, the United States and Canada agreed on an implementation period of 15 months.[18] The legislation was relatively non-complex from a technical point of view, but it was politically contentious. The agreement between the parties in that dispute recognized this political reality.

12. Canada justifies its request for an implementation period of 14 months and two days by reference to its normal legislative process. In accordance with normal procedure, officials of the Department of Industry have informed the new Minister of Industry (who is responsible for the *Patent Act*) of the obligations resulting from the recommendations and rulings of the DSB in this case. As part of the preparatory process, a draft Memorandum to Cabinet ("MC") is being prepared. The MC is the formal document that sets out the government's policy intent and, upon Cabinet approval, provides the authority and instructions for the Department of Justice to draft the bill.

13. Canada notes that due to the recent elections in Canada, and the convening of the new Parliament on 29 January 2001, the timing of consideration of the MC in Cabinet Committee and full Cabinet is uncertain.[19] Once the MC has been approved by the Cabinet, the Department of Justice will be instructed to complete the drafting of the bill and put it in final form. It is expected that once Cabinet has given its policy approval, the finalization of the drafting of the bill will take approximately one month. Once the drafting of the bill has been completed, the Government House Leader will review the bill, determine its priority in the government's legislative calendar, and report back to Cabinet so as to seek the delegated authority of the full Cabinet to schedule the introduction of the bill.[20]

14. According to Canada, the setting of the legislative agenda is the prerogative of the Government House Leader. This will have an impact on the priority that can be given to the introduction of new business, and when such new business can be included in the schedule of the House of Commons for debate. Canada outlines the legislative process in Canada as follows. The first stage is the introduction, and the first reading of the bill in Parliament. At this stage, the Minister of Industry will inform the House of his intention to proceed with the tabling of the bill. The purpose

[18]Pursuant to Article 21.3(b) of the DSU. See Canada's statement at the DSB meeting of 25 September 1997, WT/DSB/M37, 4 November 1997.

[19]In response to questioning from the Arbitrator, Canada clarified that the MC would be considered by the Cabinet Committee during the week of the oral hearing.

[20]At the oral hearing, Canada declared that the Government of Canada's aim is to introduce the bill for the first reading in early March 2001.

of the first reading is for the bill to be introduced so that it can be printed and distributed to all Members of the House. During the second reading, Members debate and vote on the principle of the bill. The bill is then referred to Committee. The Committee undertakes a clause-by-clause review and study of the bill. The timetable associated with consideration of the bill by the Committee is difficult to predict, and depends on the number of witnesses and experts that are summoned or interested in testifying. Once the bill has been approved, including any amendments, the Committee refers the bill to the House clearly indicating any amendments proposed.

15. The full House considers any amendments and votes for or against them. If amendments to the bill are made, the bill must be re-drafted and reviewed by the Legislation Section of the Department of Justice. The bill can then be scheduled for a third reading. During the third reading, the Members debate and vote on the bill as amended. Although unusual, it is possible for amendments to be introduced at this stage. Once the bill has gone through a third reading in the House, it will be sent to the Senate for consideration.

16. Consideration of the bill in the Senate follows a similar process to that of the House, including the first reading, second reading, consideration in Committee, and third reading. The Senate may propose amendments to the bill, which will then have to be sent back and considered by the House of Commons.

17. Following passage by both the House of Commons and the Senate, the bill is prepared for the Governor General for Royal Assent. Generally, an act will come into force on the date on which it receives Royal Assent unless another date of entry into force is specified in the statute, or the date may be left by the statute to be determined by order of the Governor-in-Council.

18. Canada explains that the House of Commons is scheduled to sit for 135 days in 2001. Of the 135 scheduled sitting days, certain days are allotted for certain specific debates and other emergency and special debates, leaving a maximum of 104 days for government business. Of the 80 sitting days between February and June 2001, five days are reserved for specific debates. This leaves a maximum of 61 days for consideration of legislative business during this period. The bill would likely be in committee phase when the House adjourns for its summer recess. Unlike the House, the Senate does not have a set calendar.

19. Canada submits that the required amendment to its *Patent Act* will have an impact on Canada's health care system. Therefore, it can be expected that there will be significant debate on the amendments that the government will propose. The debate, which is likely to be divisive, will affect the amount of time required by Parliament to process the legislative proposal. Any attempt by the government to use extraordinary procedures to limit debate could cause political reactions

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

B. *The United States*

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

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

22. The United States agrees that a legislative amendment is the most appropriate means of implementing the recommendations and rulings of the DSB. The United States is not, however, persuaded by the implementation schedule proposed by Canada. The United States considers that this implementation schedule does not properly reflect the objective of prompt compliance, nor does it take sufficient account of the flexibility Canada has in its parliamentary system.

23. The United States submits that the awards issued in previous arbitrations have made it clear that the "reasonable period of time" determination shall be based on the shortest period possible within the legal system of the Member to implement the recommendations and rulings of the DSB. The clearest guidance for any arbitrator in making this determination is the text of Article 21.3(c), which provides that the "reasonable period of time" should not exceed 15 months from the date of the adoption of a panel or Appellate Body report. However, that time may be shorter or longer, depending upon the particular circumstances.

24. The United States argues that the context of Article 21.3(c) makes clear the overriding purpose of prompt compliance. Not only does this Article emphasize that a "reasonable period of time" is available only "[i]f it is impracticable to comply immediately with the recommendations and rulings", but Article 21.1 affirms that "[p]rompt compliance with recommendations and rulings of the DSB is essential in order to ensure effective resolution of disputes to the benefit of all Members".

[21]United States' submission, para. 3.

Similarly, Article 3.3 of the DSU cites the "prompt settlement" of disputes as "essential to the effective functioning of the WTO and the maintenance of a proper balance between the rights and obligations of Members".

25. Referring to the award in *Canada – Pharmaceutical Patents*, the United States submits that Canada carries the burden of establishing that the "reasonable period of time" it seeks is in fact the shortest period possible for compliance within its legal system.[22]

26. According to the United States, while "particular circumstances" considered in previous arbitrations include the form of implementation, the complexity of the steps necessary for implementation, the legally binding nature of these steps for implementation and their timing, the existence of domestic controversy or "contentiousness" is not a relevant factor.[23]

27. The United States asserts that an examination of the form of Canada's implementation, the lack of complexity in the steps involved in that implementation, and the discretion built into Canada's parliamentary system shows that the shortest period of time possible for implementation under Canada's legal system is six months from the date the recommendations and rulings of the DSB were adopted.

28. The United States submits that the bureaucratic process of drafting the bill and obtaining Cabinet approval under the Canadian parliamentary system is highly flexible, and can be completed quickly if desired or necessary. The United States is of the view that even approval through Cabinet committees and the full Cabinet can be, and often is, expedited. There are no mandatory procedural rules or time requirements for such a process.

29. According to the United States, to ensure that all patents filed before 1 October 1989 obtain the term of at least 20 years from the date of filing, as established by the *Agreement on Trade-Related Aspects of Intellectual Property Rights* (the "*TRIPS Agreement*"), requires only a simple, narrow amendment of Section 45 of Canada's *Patent Act*. Furthermore, any conforming amendments to other sections of this Act, if they are required, can only be technical and non-substantive in nature.[24] Thus as, an amendment to Section 45 would be narrow, any conforming amendment must also be narrow.

[22]Award of the Arbitrator, *supra*, footnote 17, para. 47.

[23]*Ibid*., para. 60.

[24]At the oral hearing, the United States stated that while a technical correction to Section 78.1 of Canada's *Patent Act* might be needed, it would appear that no additional changes to the *Patent Act* will be necessary.

30. The United States contends that the process for approving a legislative amendment at the Cabinet level prior to its submission to the Parliament is neither complicated nor time-consuming. The Cabinet and its Committee typically meets weekly. Cabinet consideration is often *pro forma* after a proposal has been approved through Committee. As the required amendment to Canada's *Patent Act* is straightforward and is merely conforming Canada's law to an obligation under the *TRIPS Agreement* that Canada has already assumed, there is no policy issue to debate and no complexities in terms of legal drafting.

31. The United States submits that Canada has a parliamentary system, which means the government with its parliamentary majority can effectively ensure that whatever legislation it wants to pass will be passed in as short a time-period as it likes. Thus, if Canada is committed to passing the bill promptly, there is ample scope to do so using the legislative steps outlined by Canada, particularly given the controlling majority of the Liberal Party in the Parliament following the recent election, and the fact that the legislative procedural rules only require an average of one mandatory sitting day each for the first reading, the second reading, the committee stage, and the report stage and third reading taken together.

32. The United States asserts, as past practice illustrates, many bills have been swiftly passed by this government. For instance, in the 36th Parliament (1997-2000), of the 78 government bills that received Royal Assent, 40 were passed in four months or less. Indeed, bills have been enacted in as short a time-period as one week.

33. According to the United States, with Canada's ability to promptly pass legislation, the underlying question is whether Canada will make the passage of the bill a priority in its legislative agenda. For the United States, the answer must be a resounding "yes". Canada must make the compliance of its obligations under the *TRIPS Agreement* a priority in its legislative proceedings.

34. The United States concludes that there are no compelling reasons why Canada needs more than six months to implement the recommendations and rulings of the DSB in this case.

III. "Reasonable Period of Time"

35. Canada has said that it will comply with the recommendations and rulings of the DSB in *Canada – Patent Term*, but has requested a "reasonable period of time" under Article 21.3 of the DSU in which to do so.[25] As the duration of the "reasonable period of time" in this case has not been

[25]Canada's statement at the DSB meeting of 23 October 2000. See, *supra*, para. 1.

agreed by the parties, they have requested that I determine this period of time through binding arbitration under Article 21.3(c) of the DSU.[26]

36. Article 21.3(c) of the DSU provides that when the "reasonable period of time" is determined through arbitration:

> … a guideline for the arbitrator should be that the reasonable period of time to implement panel or Appellate Body recommendations should not exceed 15 months from the date of adoption of a panel or Appellate Body report. However, that time may be shorter or longer, depending upon the particular circumstances.

Thus, when the "reasonable period of time" is determined through arbitration, the guideline for the arbitrator is that this period should not exceed 15 months from the date of adoption of the panel report and/or the Appellate Body report. This does not mean, however, that the arbitrator is obliged to grant 15 months in all cases. Article 21.3(c) makes clear that the "reasonable period of time" may be shorter or longer, depending upon the "particular circumstances". The applicable "particular circumstances" thus influence the determination of what is a "reasonable period of time" for implementation, as has been stated by previous arbitrators.[27]

37. The meaning of Article 21.3(c) is elucidated by its context. This context includes the introductory language of Article 21.3, which recognizes that the question of a "reasonable period of time" for implementation only comes into play if "it is impracticable to comply immediately"; Article 21.1, which stresses that "[p]rompt compliance … is essential in order to ensure effective resolution of disputes to the benefit of all Members"; and Article 3.3, which also recognizes that the "prompt settlement of situations … is essential to the effective functioning of the WTO and the maintenance of a proper balance between the rights and obligations of Members."

38. Thus, the DSU explicitly emphasizes the importance of "prompt" compliance. In recognition of this principle, previous arbitrators have established that the most important factor in establishing the length of the "reasonable period of time" is the following:

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

[27]See, for example, Award of the Arbitrator, *Chile – Alcoholic Beverages*, *supra*, footnote 14, paras. 39, 41-45; Award of the Arbitrator under Article 21.3(c) of the DSU, *Canada – Certain Measures Affecting the Automotive Industry* ("*Canada – Automotive Industry*"), WT/DS139/12, WT/DS142/12, 4 October 2000, para. 39; and Award of the Arbitrator, *Canada – Pharmaceutical Patents*, *supra*, footnote 17, para. 48.

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

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

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

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

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

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

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

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

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

43. The United States requests that I set the "reasonable period of time" at six months from the date of adoption of the Panel and Appellate Body Reports by the DSB. According to the United States, the process of drafting a bill, gaining Cabinet approval and passing legislation is highly discretionary and can be completed quickly; Canada has a parliamentary system in which the government with its parliamentary majority can ensure that legislation will be passed in as short a time as it likes. The United States considers that Canada must make compliance with its obligations under the *TRIPS Agreement* a priority in the legislative proceedings.

44. Before I turn to the essence of this dispute, it is useful to first address two points on which the parties generally agree. The first concerns the "complexity", or rather the absence of "complexity", of the implementing measure in this case. In two previous arbitration awards, it has been expressly recognized that the complexity of the proposed implementation can be one of the "particular circumstances" which may influence the length of the "reasonable period of time".[32]

45. The parties in this dispute hold different views on the exact number of provisions of the Canadian *Patent Act* which need to be amended.[33] The parties do agree, however, on the nature of these amendments. In response to questioning at the oral hearing, Canada accepted that the proposed bill addresses narrow technical issues. Thus, Canada recognizes that its request for a "reasonable period of time" of 14 months and two days is not justified by the "complexity" of the envisaged implementing legislation. Canada, rather, seems to admit the position of the United States that the required legislative change is "simple".[34]

46. A second point of convergence between the parties concerns the significance, under Article 21.3(c) of the DSU, of the economic consequences of the expiry of certain patents during the "reasonable period of time" for the implementation of the recommendations and rulings of the DSB. I recall the United States' assertion that, if Canada is permitted to delay its implementation of the

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[32]Award of the Arbitrator, *Canada – Pharmaceutical Patents*, *supra* footnote 17, para 50. See, also, Award of the Arbitrator, *European Communities – Bananas*, *supra*, footnote 9, para. 19.

[33]According to Canada, the amendment of Section 45 of its *Patent Act* entails not only an amendment of Section 78.1 of the same Act but also an amendment of Sections 78.2 and 78.5 of its *Patent Act*, and Section 46 of the "Old Act", that is, Section 46 as it read before October 1989. According to the United States, the amendment of Sections 78.2 and 78.5 of Canada's *Patent Act* and of Section 46 of the "Old Act" appear not to be necessary.

In order to avoid any misunderstandings, I would like to stress that I am mindful of the limits of my mandate in this arbitration which relates exclusively to determining the "reasonable period of time" for implementation under Article 21.3(c). See, Award of the Arbitrator, *European Communities – Hormones*, *supra*, footnote 10, para. 38; Award of the Arbitrator under Article 21.3(c) of the DSU, *Australia – Measures Affecting Importation of Salmon*, WT/DS18/9, 23 February 1999, para. 35; Award of the Arbitrator, *Korea – Alcoholic Beverages*, *supra*, footnote 11, para. 45; and Award of the Arbitrator, *Canada – Pharmaceutical Patents*, *supra*, footnote 17, paras. 40 – 43.

[34]United States' submission, paras. 15 and 19.

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

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

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

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

[35]United States' submission, para. 3.

[36]Canada's opening statement at the oral hearing, paras. 12 and 14.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[41]Canada offered this explanation at the oral hearing, see Canada's opening statement, para. 32. In response to questioning by the Arbitrator, Canada explained that, according to the Canadian Drug Manufacturers Association, an extension of the existing period of patent protection (to 20 years from the filing date, as required by Article 33 of the *TRIPS Agreement*) should be accompanied by a reduction of the period of protection of *all* existing patents to exactly the same period of 20 years.

"reasonable period of time" in the present case. Therefore, Canada cannot invoke legislative choices and the likely divisiveness of the debate in the Canadian Parliament to justify its request for a "reasonable period of time" of 14 months and two days.

59. While Canada invokes the controversial character of any amendment to its *Patent Act* which will have an impact on the Canadian health care system, the United States emphasizes that under Canada's parliamentary system, the Government of Canada controls the majority in both Houses of Parliament, the House of Commons and the Senate. According to the United States, with this majority, the government controls the legislative process, and sets the timetable for both Houses of Parliament from start to finish; the Government of Canada can essentially pass any legislation it wishes in whatever time it likes.

60. It may well be possible that Canada's political system and the actual distribution of seats among the political parties in Canada's Parliament facilitate the passage of legislative initiatives taken by the present Canadian government. I am, however, very reluctant to take these factors into account in determining the "reasonable period of time". These factors vary from country to country, and from constitution to constitution. Even within a given country, they will change over time. In addition, their evaluation will often be difficult and highly speculative. I also note that such factors have never been considered as "particular circumstances" in any of the earlier awards under Article 21.3 (c) of the DSU. Thus, the political factors mentioned in the preceding paragraph, and invoked by the United States in support of its request for a "reasonable period of time" of six months, are not relevant to my task.

61. Having examined these arguments advanced by Canada and the United States, I now turn to the evaluation of the requested "reasonable period of time" in the light of Canada's normal legislative process.

62. Contrary to other cases,[42] I do not believe that it is necessary to examine the pre-legislative phase of Canada's law making process, as it is likely that this phase will be practically completed by the time that this award is made public. Canada has said that, anticipating the comments made by the arbitrator in *United States – Section 110(5)*, it has made good use of the period following the

[42]See, in particular, Award of the Arbitrator, *Chile - Alcoholic Beverages*, *supra*, footnote 14, para. 43.

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

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

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

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[43]In this award, the arbitrator said:

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

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

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

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

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

65. Canada justifies its request for a "reasonable period of time" of 14 months and two days on the basis that the fall session of the Canadian Parliament ends on 14 December 2001. I consider that, in the circumstances of this case, the inclusion of the fall session of the Canadian Parliament is not justified. Turning to the position of the United States, I note that the end of an implementing period of six months would fall in the middle of the spring session of the Canadian House of Commons, that is, 12 April 2001. However, this period seems to me to be unreasonably short.

66. I note that the last sitting day, actually foreseen by the Canadian House of Commons calendar, before the summer recess is 22 June 2001. However, establishing the "reasonable period of time" so that it ends on this day does not seem to me to be appropriate. Fixing the "reasonable period of time" to coincide with a date which is not determined by constitution or by statute, but which can easily be modified, would give the actual calendar of the House of Commons a legal value and significance that it simply does not have. In addition, I note that the bill must also pass the Senate and be given Royal Assent. I, therefore, determine the "reasonable period of time" independently of the date actually foreseen by the Canadian House of Commons calendar for the beginning of the summer recess of the House of Commons.

IV. The Award

67. For all the above reasons, I determine that the "reasonable period of time" for Canada to implement the recommendations and rulings of the DSB is *10 months* from the date of adoption of the Panel and Appellate Body Reports by the DSB on 12 October 2000. The "reasonable period of time" will, thus, expire on 12 August 2001.

Signed in the original at Geneva this 19th day of February 2001 by:

Claus-Dieter Ehlermann

Arbitrator