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EUROPEAN COMMUNITIES – PROTECTION OF TRADEMARKS AND GEOGRAPHICAL INDICATIONS FOR AGRICULTURAL PRODUCTS AND FOODSTUFFS

Complaint by the United States

Report of the Panel

*Excerpted version prepared by Prof Daniel Gervais
for teaching purposes only.*
Paragraph numbers do not match those of the original report.
Footnotes omitted

I. FACTUAL ASPECTS

A. MEASURES AT ISSUE

1. The measures at issue in this dispute are identified in the United States' request for establishment of a panel as Council Regulation (EEC) No. 2081/92 of 14 July 1992 on the protection of geographical indications (GIs) and designations of origin for agricultural products and foodstuffs, as amended, and its related implementing and enforcement measures.

II. FINDINGS

2. The claims in this dispute are made under the TRIPS Agreement.[ ] The Panel will consider the claims relevant to each aspect of the measure in turn. The following sections of the findings are organized as follows:

   – National treatment claims

   – Trademark claim

A. NATIONAL TREATMENT CLAIMS

[The panel considers first a systemic claim concerning GI regulation in the EU and then a specific claim concerning the objection procedure that is part of the registration process]

[Systemic claim]

3. The United States claims that GIs located in the territory of a WTO Member outside the European Union can only be registered under the Regulation if that Member satisfies the

conditions in Article 12(1), which require it to adopt a system for GI protection that is equivalent to that in the European Communities and provide reciprocal protection to products from the European Communities.

4. The European Communities responds that the conditions in Article 12(1) of the Regulation do not apply to geographical areas located in WTO Members. The introductory phrase of Article 12(1) provides that it applies "[w]ithout prejudice to international agreements" – which include the WTO agreements. This is made clear by the eighth recital of the April 2003 amending Regulation which took specific account of the provision of the TRIPS Agreement. WTO Members are obliged to provide protection to geographical indications in accordance with Section 3 of Part II and the general provisions and basic principles of the TRIPS Agreement. For this reason, Article 12(1) and 12(3) do not apply to WTO Members. Accordingly, the registration of GIs from other WTO Members is subject to exactly the same conditions as the registration of GIs from the European Communities. The European Communities does not consider that the Panel is "bound" by the EC's interpretation of its own measure. However, it submits that the Panel must take due account of the fact that the Regulation is a measure of EC domestic law and establish its meaning as a factual element.

5. The parties agree that the conditions set out in Article 12(1) of the Regulation do not apply to the protection of GIs located within the territory of the European Communities. They disagree as to whether they apply to the protection of GIs located in other WTO Members. The United States claims that they do so apply, and it is not disputed that the European Communities never made a clear statement that these conditions did not so apply prior to this panel proceeding. However, the European Communities responds in its submissions to the Panel that the conditions only apply to third countries that are not WTO Members.

6. Certain facts are agreed. The parties agree that the Regulation contains two sets of detailed procedures for the registration of GIs for agricultural products and foodstuffs. The first procedure, in Articles 5 through 7, applies to the names of geographical areas located in the European Communities. It has been part of the Regulation since its adoption in 1992, although it has been amended subsequently in certain respects. The second procedure, principally found in Articles 12a and 12b, applies to the names of geographical areas located in third countries outside the European Communities. It was inserted in the Regulation in April 2003. A third procedure for registration of GIs protected under the national law of EC member States was formerly available under Article 17, but was deleted in April 2003. A fourth possibility is registration by means of an international agreement, discussed below.

7. The parties disagree as to whether the second of these procedures is subject to additional conditions found in Article 12(1) of the Regulation that do not apply to the first procedure. Article 12(1) provides as follows:

> "Without prejudice to international agreements, this Regulation may apply to an agricultural product or foodstuff from a third country provided that:
>
> the third country is able to give guarantees identical or equivalent to those referred to in Article 4,
>
> the third country concerned has inspection arrangements and a right to objection equivalent to those laid down in this Regulation,
>
> the third country concerned is prepared to provide protection equivalent to that available in the Community to corresponding agricultural products or foodstuffs coming from the Community."

8. The United States presents two types of evidence. The first is the text of the Regulation and the second consists of the European Communities' own statements concerning the Regulation prior to, and during, this Panel proceeding.

9. The Panel begins its analysis by reviewing the measure on its face. [ ]Article 12(3) of the Regulation provides as follows:

> " The Commission shall examine, at the request of the country concerned, and in accordance with the procedure laid down in Article 15 whether a third

> country satisfies the equivalence conditions and offers guarantees within the meaning of paragraph 1 as a result of its national legislation. Where the Commission decision is in the affirmative, the procedure set out in Article 12a shall apply."

10. The case provided for in this paragraph is clear: it refers to a third country which satisfies the conditions in Article 12(1). The initial clause of Article 12a, as confirmed by the chain of cross- references in Articles 12a(2) and 12b(1), therefore limits the procedure in Articles 12a and 12b to such third countries. No other provision in Article 12a or 12b indicates that that procedure is available for the registration of GIs located in a third country which does not satisfy the conditions in Article 12(1), even if it is a WTO Member. This is consistent with Article 12b(2), which provides for objections in the same procedure, and expressly distinguishes between a "Member State of the European Union or a WTO member" and "a third country meeting the equivalence conditions of Article 12(3)". The implication is that a WTO Member is not necessarily a third country meeting those conditions.

11. In the Panel's view, the meaning and content of these aspects of the Regulation, together with the amending Regulation, are sufficiently clear on their face for the United States to have discharged its burden of proof of establishing that, under the Regulation "as such", the availability of protection for GIs located in WTO Members is contingent upon satisfaction of the conditions set out in Article 12(1) and recognition by the Commission under Article 12(3). There is no supporting evidence of the meaning of these aspects of the Regulation in the form of an interpretation of the relevant provisions by the European Court of Justice or any other domestic court. This is partly explained by the facts that no requests for registration of foreign GIs have been made under the Regulation and that Articles 12a through 12d were inserted only recently, in April 2003.

12. The United States also presents evidence consisting of various statements by executive authorities of the European Communities which contain interpretations of the Regulation. The Panel considers that such statements can be useful as, objectively, a WTO Member is normally well placed to explain the meaning of its own domestic law. However, the usefulness of any particular statement will depend on its contents and the circumstances in which it was made. The Panel has weighed the evidence and considers that one statement in particular, in light of the clarity of its contents and the official capacity in which it was delivered, is highly relevant to the issue at hand.

13. The Panel notes that the European Communities was emphatic at that time that registration systems should primarily be aimed at domestic GIs and it quoted the legislation of several other WTO Members which allegedly do not register foreign GIs without an international agreement. This statement by the European Communities in September 2002 to the Council for TRIPS therefore appears to support the United States' interpretation of the Regulation on its face.

National treatment under the TRIPS Agreement

14. The Panel will [now] consider the claim under Article 3.1 of the TRIPS Agreement, which provides as follows:

> "Each Member shall accord to the nationals of other Members treatment no less favorable than that it accords to its own nationals with regard to the protection of intellectual property, subject to the exceptions already provided in, respectively, the Paris Convention (1967), the Berne Convention (1971), the Rome Convention or the Treaty on Intellectual Property in Respect of Integrated Circuits. ..." [footnote 3 omitted]

15. Two elements must be satisfied to establish an inconsistency with this obligation: (1) the measure at issue must apply with regard to the protection of intellectual property; and (2) the nationals of other Members must be accorded "less favorable" treatment than the Member's own nationals. The Panel will address each of these elements in turn. The parties do not agree on the meaning of "nationals" for the purposes of this claim. The Panel will therefore address that issue in the course of its consideration of the second element of this claim.

Protection of intellectual property

16. The national treatment obligation in Article 3 of the TRIPS Agreement applies "with regard to the protection of intellectual property". Footnote 3 provides an inclusive definition of the term "protection" as used in Articles 3 and 4. It reads as follows:

> "For the purposes of Articles 3 and 4, 'protection' shall include matters affecting the availability, acquisition, scope, maintenance and enforcement of intellectual property rights as well as those matters affecting the use of intellectual property rights specifically addressed in this Agreement."

17. Article 1.2 explains the term "intellectual property":

> "For the purposes of this Agreement, the term 'intellectual property' refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II."

18. Turning to the Regulation, Article 12(1) refers to how the Regulation "may apply", which is a reference to the *availability* of intellectual property rights in relation to "designations of origin" and "geographical indications", as defined in the Regulation. It is not disputed that "designations of origin" and "geographical indications", as defined in the Regulation, fall within the category of "geographical indications", the subject of Section 3 of Part II, and therefore part of a category of intellectual property within the meaning of Article 1.2 of the TRIPS Agreement. Therefore, this claim concerns the "protection" of intellectual property, as clarified in footnote 3 to the TRIPS Agreement, within the scope of the national treatment obligation in Article 3 of that Agreement.

19. It is not necessary to show that the Regulation implements the minimum standards in Part II of the TRIPS Agreement for the purposes of these claims. National treatment is required with regard to the protection of intellectual property, even where measures provide a higher level of protection.

Less favorable treatment accorded to the nationals of other Members

20. The Panel now examines the second element of this claim which is whether the nationals of other Members are accorded less favorable treatment than the European Communities' own nationals.

21. The interpretation of the "no less favorable" treatment standard under other covered agreements may be relevant in interpreting Article 3.1 of the TRIPS Agreement, taking account of its context in each agreement including, in particular, any differences arising from its application to like products or like services and service suppliers, rather than to nationals.

22. Although the parties disagree on whether the equivalence and reciprocity conditions in Article 12(1) of the Regulation discriminate in a manner inconsistent with the covered agreements, it is not disputed that those conditions accord less favorable treatment to persons with interests in the *GIs* to which those conditions apply. The Panel considers that those conditions modify the effective equality of opportunities to obtain protection with respect to intellectual property in two ways. First, GI protection is not available under the Regulation in respect of geographical areas located in third countries which the Commission has not recognized under Article 12(3). The European Communities confirms that the Commission has not recognized any third countries. Second, GI protection under the Regulation may become available if the third country in which the GI is located enters into an international agreement or satisfies the conditions in Article 12(1). Both of those requirements represent a significant "extra hurdle" in obtaining GI protection that does not apply to geographical areas located in the European Communities. The significance of the hurdle is reflected in the fact that currently no third country has entered into such an agreement or satisfied those conditions. Accordingly, the Panel finds that the equivalence and reciprocity conditions modify the effective equality of opportunities with respect to the availability of protection to persons who wish to obtain GI protection under the Regulation, to the detriment of those who wish to obtain protection in

respect of geographical areas located in third countries, including WTO Members. This is less favorable treatment.

23. The Panel recalls that the standard of examination is based on "effective equality of opportunities". It follows that the nationals that are relevant to an examination under Article 3.1 of the TRIPS Agreement should be those who seek opportunities with respect to the same type of intellectual property in comparable situations. On the one hand, this excludes a comparison of opportunities for nationals with respect to different categories of intellectual property, such as GIs and copyright. On the other hand, no reason has been advanced as to why the equality of opportunities should be limited *a priori* to rights with a territorial link to a particular Member.

24. The Panel therefore considers it appropriate for the purposes of this claim to compare the effective equality of opportunities for the group of nationals of other Members who may wish to seek GI protection under the Regulation and the group of the European Communities' own nationals who may wish to seek GI protection under the Regulation. On this approach, there is no need to make a factual assumption that every person who wishes to obtain protection for a GI in a particular Member is a national of that Member.

25. Registration confers certain protection, but only agricultural products or foodstuffs that comply with a specification are eligible to "use" a registered GI. Any person, and not merely the applicant, that produces or obtains the products in accordance with the specification in the registration is entitled to use the GI. These provisions create a link between persons, the territory of a particular Member, and the availability of protection. The definition of a "designation of origin" requires that the applicant and users must produce, process and prepare the products covered by a registration in the relevant geographical area, whilst the definition of a "geographical indication" requires that the applicant and users must carry out at least one, or some combination, of these three activities in the geographical area, and must do so in accordance with a specification. Accordingly, insofar as the Regulation discriminates with respect to the availability of protection between GIs located in the European Communities, on the one hand, and those located in third countries, including WTO Members, on the other hand, it formally discriminates between those persons who produce, process and/or prepare a product in accordance with a specification, in the European Communities, on the one hand, and those persons who produce, process and/or prepare a product in accordance with a specification, in third countries, including WTO Members, on the other hand.

26. The Panel agrees that the vast majority of natural and legal persons who produce, process and/or prepare products according to a GI specification within the territory of a WTO Member party to this dispute will be nationals of that Member. The fact that there may be cases where such a person does not qualify as a national – and none has been brought to its attention – does not alter the fact that the distinction made by the Regulation on the basis of the location of a GI will operate in practice to discriminate between the group of nationals of other Members who wish to obtain GI protection, and the group of the European Communities' own nationals who wish to obtain GI protection, to the detriment of the nationals of other Members. This will not occur as a random outcome in a particular case but as a feature of the design and structure of the system. This design is evident in the Regulation's objective characteristics, in particular, the definitions of "designation of origin" and "geographical indication" and the requirements of the product specifications. The structure is evident in the different registration procedures.

27. The text of the TRIPS Agreement contains a recognition that discrimination according to residence and establishment will be a close substitute for nationality. The criteria set out in footnote 1 to the TRIPS Agreement are clearly intended to provide close substitute criteria to determine nationality where criteria to determine nationality as such are not available in a Member's domestic law. These criteria are "domicile" and "real and effective industrial or commercial establishment". They are taken from the criteria used for the assimilation of nationals in Article 3 of the Paris Convention (1967). It is clear that, in using these terms, the drafters of footnote 1 of the TRIPS Agreement chose terms that were already understood in this pre-existing intellectual property convention. Under Article 3 of the Paris Convention (1967), "domicile" is not generally understood to indicate a legal situation, but rather a more or less permanent residence of a natural person, and an actual headquarters of a legal person. A "real

and effective industrial and commercial establishment" is intended to refer to all but a sham or ephemeral establishment.

28. The object and purpose of the TRIPS Agreement depends on the obligation in Article 1.3 to accord the treatment provided for in the Agreement to the nationals of other Members, including national treatment under Article 3.1. That object and purpose would be severely undermined if a Member could avoid its obligations by simply according treatment to its own nationals on the basis of close substitute criteria, such as place of production, or establishment, and denying treatment to the nationals of other WTO Members who produce or are established in their own countries.

29. The Panel also notes that the close link between nationality, on the one hand, and residence and establishment, on the other, appears to be recognized in the Regulation itself. Article 12d of the Regulation accords a right of objection to persons, which the European Communities confirms is a reference to persons resident or established outside the European Communities, regardless of their nationality. Yet the April 2003 amending Regulation, which inserted Article 12d, explained that it granted the right of objection to the *nationals* of other WTO Members.

Conclusion with respect to Article 3.1 of the TRIPS Agreement

30. Therefore, the Panel concludes that, with respect to the equivalence and reciprocity conditions, as applicable to the availability of GI protection, the Regulation accords treatment to the nationals of other Members less favorable than that it accords to the European Communities' own nationals, inconsistently with Article 3.1 of the TRIPS Agreement.

[Claim concerning the objection procedures under the Regulation]

31. The parties agree on most features of the objection procedures under the Regulation. There are separate provisions setting out the procedures for objections to applications for registration of GIs which apply according to the location of the geographical area and the location of the person who wishes to file an objection. Article 7 applies where the geographical area and the person who wishes to file an objection are both located in EC member States. Article 12b applies where the geographical area is located in a third country. Article 12d applies where the geographical area is located in an EC member State and the person who wishes to file an objection is located in a third country.

32. Article 7(1) and 7(3) provide as follows:

> "1. Within six months of the date of publication in the *Official Journal of the European Communities* referred to in Article 6(2), any Member State may object to the registration.
> …
> 3. Any legitimately concerned natural or legal person may object to the proposed registration by sending a duly substantiated statement to the competent authority of the Member State in which he resides or is established. The competent authority shall take the necessary measures to consider these comments or objection within the deadline laid down."

33. Article 12b(2) provides, relevantly, as follows:

> "Within six months of the date of publication as provided for in paragraph 1(a), any natural or legal person with a legitimate interest may object to the application published in accordance with paragraph 1(a) on the following terms:
>
> i. where the objection comes from a Member State of the European Union or a WTO Member, Article 7(1), (2) and (3) or Article 12d respectively shall apply;
> ii. where the objection comes from a third country meeting the equivalence conditions of Article 12(3), a duly substantiated statement of objection shall be addressed to the country in which the abovementioned

> natural or legal person resides or is established, which shall forward it to the Commission."

34. Article 12d(1) provides, relevantly, as follows:

> "Within six months of the date of the notice in the *Official Journal of the European Union* specified in Article 6(2) relating to a registration application submitted by a Member State, any natural or legal person that has a legitimate interest and is from a WTO member country or a third country recognized under the procedure provided for in Article 12(3) may object to the proposed registration by sending a duly substantiated statement to the country in which it resides or is established, which shall transmit it, made out or translated into a Community language, to the Commission."

35. The United States argues that EC nationals have a *direct means to object* to registrations but non-EC nationals do not. Objections must be filed with the authorities of the third country or EC member State in which the objector resides or is established. The competent authority of an EC member State has an obligation under Article 7(3) of the Regulation to take the necessary measures. The authorities in the third country do not. They are responsible for *verification and transmission* of the objection. This represents an extra hurdle for non-EC nationals and less favorable treatment. It also constitutes a requirement of domicile or establishment inconsistent with Article 2(2) of the Paris Convention (1967).

36. The European Communities argues that Article 12d grants a right of objection to persons from WTO Members because the phrase "recognized under the procedure provided for in Article 12(3)" only applies to other third countries. The conditions of *equivalence* and *reciprocity* do not apply to WTO Members' right to object. Otherwise, the specific reference to "WTO Members" would be meaningless. This is also clear in Article 12b(2). It also argues that Article 12d does not discriminate according to nationality but according to residence or establishment.

37. The Panel recalls that two elements must be satisfied to establish an inconsistency with this obligation: (1) the measure at issue must apply with regard to the protection of intellectual property; and (2) the nationals of other Members must be accorded "less favorable" treatment than the Member's own nationals. The Panel will address each of these elements in turn.

38. The Panel recalls its finding that procedures for the filing and examination of *applications* for registration are matters affecting the acquisition of intellectual property rights, within the scope of "protection" of intellectual property as clarified in footnote 3 of the TRIPS Agreement. Procedures for *objections* to such applications are related to the procedures for acquisition, as recognized in the fourth paragraph of Article 62 (which uses the word "opposition") and the title of that article. Hence, opposition procedures are also matters "affecting" the acquisition of intellectual property rights which concern the "protection" of intellectual property, as clarified in footnote 3 to the TRIPS Agreement.

39. The Panel recalls its finding that under Article 3.1 of the TRIPS Agreement we must examine the "effective equality of opportunities" with regard to the protection of intellectual property rights and that in this examination we will focus on the "fundamental thrust and effect" of the Regulation.

40. The parties and third parties who responded to the Panel's question on this point all reported that they were not aware of any objections to registration of GIs under the Regulation ever having been filed with the authorities of a third country. However, the United States challenges the Regulation, in this respect, "as such".

41. The United States claims that the treatment accorded under the objection procedures in Articles 12b(2) and 12d(1) is less favorable than that accorded under the objection procedure in Article 7(3). There is an apparent equivalence in the drafting of these provisions but the question is whether this would imply a modification of the effective equality of opportunities with regard to the protection of intellectual property.

42. The Panel notes that the initial steps in the procedures for objections by private persons can be broken down as follows:

    i. as a first step, all objectors are required to submit their objection to the authorities in the country in which they reside or are established. These will be authorities of an EC member State or a third country, depending on the case; and
    ii. as a *second step*, the authorities who receive an objection verify certain formal matters and forward or transmit it to the Commission.

43. We recall the European Communities' explanation of what amounts to its domestic constitutional arrangements that Community laws are generally not executed through authorities at Community level but rather through recourse to the authorities of its member States which, in such a situation, "act *de facto* as organs of the Community, for which the Community would be responsible under WTO law and international law in general". It follows that any objection from a person in an EC member State is filed directly with a "*de facto* organ of the Community". An objection from a person in a third country cannot be filed directly, but must be filed with a foreign government. This is a formal difference in treatment.

44. Persons resident or established in third countries, including other WTO Members, who wish to object to applications for registration under the Regulation do not have a right in the objection procedures that is provided to persons in the European Communities. Objectors in third countries face an "extra hurdle" in ensuring that the authorities in those countries carry out the functions reserved to them under the Regulation, which objectors in EC member States do not face. Consequently, certain objections may not be verified or transmitted. Each of these considerations significantly reduces the opportunities available to other WTO Member nationals in matters affecting the acquisition of rights under the Regulation compared with those available to EC nationals. For this reason, the Regulation accords nationals of other WTO Members "less favorable treatment" within the meaning of Article 3.1 of the TRIPS Agreement.

45. Therefore, the Panel concludes that, with respect to the objection procedures, insofar as they require the verification and transmission of objections by governments, the Regulation accords less favorable treatment to the nationals of other Members, inconsistently with Article 3.1 of the TRIPS Agreement.

TRADEMARK CLAIM

The relationship between GIs and prior trademarks

46. The United States claims that the Regulation is inconsistent with Article 16.1 of the TRIPS Agreement because it does not ensure that a trademark owner may prevent uses of GIs which would result in a likelihood of confusion with a prior trademark. Its claim only concerns valid prior trademarks, not trademarks liable to invalidation because they lack distinctiveness or mislead consumers as to the origin of goods. It does not dispute that GIs that are identical or similar to trademarks may be used, but only to the extent that they do not result in a likelihood of confusion with respect to prior trademarks. The European Communities responds that this claim is unfounded for several reasons: (1) Article 14(3) of the Regulation, in fact, prevents the registration of GIs, use of which would result in a likelihood of confusion with a prior trademark; (2) Article 24.5 of the TRIPS Agreement provides for the "coexistence" of GIs and prior trademarks; (3) Article 24.3 of the TRIPS Agreement requires the European Communities to maintain "coexistence"; and (4) in any event, Article 14(2) of the Regulation would be justified as a limited exception under Article 17 of the TRIPS Agreement.

47. For the sake of brevity, the Panel uses the term "coexistence" in this report to refer to a legal regime under which a GI and a trademark can both be used concurrently to some extent even though the use of one or both of them would otherwise infringe the rights conferred by the other. The use of this term does not imply any view on whether such a regime is justified.

48. The Panel will begin its examination of this claim by describing Article 14(2) of the Regulation and how the Regulation can, in principle, limit the rights of the owner of a trademark subject to Article 14(2) against the use of a GI. We will then assess whether Article 14(3) of the Regulation prevents a situation from occurring in which a trademark would be subject to

Article 14(2). If Article 14(3) cannot prevent that situation from occurring, we will proceed to examine whether Article 16.1 of the TRIPS Agreement requires Members to make available to trademark owners the right to prevent confusing uses of signs, even where the signs are used as GIs. If it does, we will consider whether Article 24.5 provides authority to limit that right and, if Article 24.5 does not, conclude our examination by assessing whether Article 17 or Article 24.3 of the TRIPS Agreement permits or requires the European Communities to limit that right with respect to uses of signs used as GIs.

Description of the Regulation

49. A registered GI may be used together with other signs or as part of a combination of signs but the registration does not confer a positive right to use any such other signs or combination of signs or to use the name in any linguistic versions not entered in the register. Therefore, the registration does not affect the right of trademark owners to exercise their rights with respect to such uses.

50. Article 14 of the Regulation governs the relationship of GIs and trademarks under Community law. Paragraph 1 deals with later trademarks. It provides for the refusal of trademark applications where use of the trademark would infringe the rights in a GI already registered under the Regulation. This, in effect, ensures that a registered *GI prevails over a later trademark*.

51. Paragraph 2 of Article 14 deals with prior trademarks. It provides as follows:

> "With due regard to Community law, a trademark the use of which engenders one of the situations indicated in Article 13 and which has been applied for, registered, or established by use, if that possibility is provided for by the legislation concerned, in good faith within the territory of the Community, before either the date of protection in the country of origin or the date of submission to the Commission of the application for registration of the designation of origin or geographical indication, may continue to be used notwithstanding the registration of a designation of origin or geographical indication, provided that no grounds for its invalidity or revocation exist as specified by Council Directive 89/194/EEC of 21 December 1998 to approximate the laws of the Member States relating to trademarks and/or Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark." [footnotes omitted]

52. This is an exception to Article 13, as it provides for the continued use of a prior trademark even though use of that trademark would conflict with the rights conferred by registration of a GI under the Regulation. It prevents the exercise of rights conferred by registration of a GI against the continued use of that particular prior trademark and is an express recognition that, in principle, *a GI and a trademark can coexist* under Community law. It is intended to implement Article 24.5 of the TRIPS Agreement.

53. Article 14(2) only applies:

    a. with respect to the GI, where a particular indication satisfies the conditions for protection, including the definitions of a "designation of origin" or a "geographical indication", and is not subject to refusal on any grounds, including those in paragraph 3 of Article 14;
    b. with respect to the trademark, where a particular sign has already been applied for, registered, or established by use in good faith and there are no grounds for its invalidity or revocation; and
    c. where use of that trademark would infringe the GI registration.

54. The scope of Article 14(2) is confined temporally to those trademarks applied for, registered or established by use either before the GI is protected in its country of origin or before the date of submission to the Commission of an application for GI registration.

55. Accordingly, the trademark owner's right provided by trademark legislation in the implementation of Article 16.1 of the TRIPS Agreement, in principle, cannot be exercised against a person who uses a registered GI in accordance with its registration where the

trademark is subject to Article 14(2) of the Regulation.

Consideration by the Panel

56. The parties largely agree on the factual implications, in principle, of the application of Article 14(2). It allows the continued use of a trademark on certain conditions but, at the same time, the Regulation confers a positive right to use a GI which prevents the owner of a trademark from exercising the right conferred by that trademark against a person who uses a registered GI in accordance with its registration. The particular right of a trademark owner at issue is the right to prevent uses of a sign that would result in a likelihood of confusion.

57. The European Communities has submitted that the criteria for registrability of a trademark limit *a priori* the risk of GIs being confused with a prior trademark, but it does not submit that they completely eliminate that risk. The evidence shows that signs eligible for protection as GIs can and have been registered as trademarks in the Community. The European Communities has not shown that the criteria for registrability of trademarks can anticipate adequately a situation in which a GI could be used in a way that results in a likelihood of confusion with a trademark, wherever the Regulation does not provide for refusal of registration of a GI.

58. In light of these observations, the Panel considers that there is no evidence to show that it is possible to seek invalidation of a GI registration in *all* cases in which use of a GI would otherwise be found to infringe a prior trademark. In those cases where it is not possible, it would be necessary for the owner of a prior trademark to be able to anticipate, at the time of the proposed GI registration, all subsequent uses of the proposed GI that would result in a likelihood of confusion. There is no reason to believe that this is possible. The evidence submitted to the Panel shows that GI registrations under the Regulation simply refer to names without limiting the way in which they are used. Indeed, it became apparent in the course of the proceedings that what the United States regards as "trademark-like use" is, in the European Communities, considered perfectly legitimate use as a GI.

59. The United States also alleges that three Czech beer GIs, "Budějovické pivo", "Českobudějovické pivo" and "Budějovický měšťanský var" could be used in a manner that would result in a likelihood of confusion with the prior trademarks BUDWEISER and BUD, registered in respect of beer. The evidence shows that a court in a non-EC WTO Member found a reasonable probability that a substantial number of persons would be confused if the marks BUDEJOVICKY BUDVAR depicted in a special script, and BUDWEISER and BUD, were used together in relation to beer in a normal and fair manner and in the ordinary course of business, particularly the mark BUD. However, courts in two other non-EC WTO Members found that the use of "Budìjovický Budvar" on specific beer labels did not give rise to a likelihood of confusion with the trademarks BUDWEISER and BUD, registered in respect of beer. In response to a direct question from the Panel, the European Communities did not deny that these GIs could be used in a manner that would result in a likelihood of confusion with these prior trademarks. Instead, it pointed to an endorsement on the three GI registrations that they apply "without prejudice to any beer trademark or other rights existing in the European Union on the date of accession".

60. The Panel will now proceed to examine whether the TRIPS Agreement requires Members to make available to trademark owners' rights against the use of GIs.

61. Relationship between protection of GIs and prior trademarks under the TRIPS Agreement

Article 16.1 of the TRIPS Agreement

62. Part II of the TRIPS Agreement contains minimum standards concerning the availability, scope and use of intellectual property rights. The first seven Sections of Part II contain standards relating to categories of intellectual property rights. Each Section sets out, as a minimum, the *subject matter* which is eligible for protection, the scope of the *rights conferred* by the relevant category of intellectual property and permitted *exceptions* to those rights.

63. Although each of the Sections in Part II provides for a different category of intellectual property, at times they refer to one another, as certain subject matter may be eligible for

protection by more than one category of intellectual property. This is particularly apparent in the case of trademarks and GIs, both of which are, in general terms, forms of distinctive signs. The potential for overlap is expressly confirmed by Articles 22.3 and 23.2, which provide for the refusal or invalidation of the registration of a trademark which contains or consists of a GI.

64. Section 2 of Part II provides for the category of trademarks. Article 15.1 sets out the definition of the subject matter which is capable of constituting a trademark. These are signs that satisfy certain criteria. Article 16.1 sets out a right which must be conferred on the owner of a registered trademark, and which may also be acquired on the basis of use, as follows:

> " The owner of a registered trademark shall have the exclusive right to prevent all third parties not having the owner's consent from using in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion. In case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed. The rights described above shall not prejudice any existing prior rights, nor shall they affect the possibility of Members making rights available on the basis of use."

65. The right which must be conferred on the owner of a registered trademark is set out in the first sentence of the text. There are certain limitations on that right which relate to use in the course of trade, the signs, the goods or services for which the signs are used and those with respect to which they are registered and the likelihood of confusion. The ordinary meaning of the text indicates that, basically, this right applies to use in the course of trade of identical or similar signs, on identical or similar goods, where such use would result in a likelihood of confusion. It does not specifically exclude use of signs protected as GIs.

66. The text of Article 16.1 stipulates that the right for which it provides is an "exclusive" right. This must signify more than the fact that it is a right to "exclude" others, since that notion is already captured in the use of the word "prevent". Rather, it indicates that this right belongs to the owner of the registered trademark alone, who may exercise it to prevent certain uses by "all third parties" not

67. having the owner's consent. The last sentence provides for an exception to that right, which is that it shall not prejudice any existing prior rights. Otherwise, the text of Article 16.1 is unqualified.

68. Other exceptions to the right under Article 16.1 are provided for in Article 17 and possibly elsewhere in the TRIPS Agreement. However, there is no implied limitation vis-à-vis GIs in the text of Article 16.1 on the exclusive right which Members must make available to the owner of a registered trademark. That right may be exercised against a third party not having the owner's consent on the same terms, whether or not the third party uses the sign in accordance with GI protection, subject to any applicable exception.

Article 24.5 of the TRIPS Agreement

69. The parties have referred to Article 24.5 of the TRIPS Agreement. This appears in Section 3 of Part II, which provides for the category of GIs. Article 24.5 provides as follows:

> "Where a trademark has been applied for or registered in good faith, or where rights to a trademark have been acquired through use in good faith either:
>
> > before the date of application of these provisions in that Member as defined in Part VI; or
> > before the geographical indication is protected in its country of origin;
>
> measures adopted to implement this Section shall not prejudice eligibility for or the validity of the registration of a trademark, or the right to use a trademark, on the basis that such a trademark is identical with, or similar to, a geographical indication."

70. The Panel must interpret this provision, like all other provisions of the covered agreements relevant to this dispute, in accordance with the customary rules of interpretation of public international law, as required by Article 3.2 of the DSU. For present purposes, this means the general rule of treaty interpretation contained in Article 31 of the Vienna Convention on the Law of Treaties. This requires an interpretation in good faith in accordance with the ordinary meaning to be given to the terms in their context and in the light of the object and purpose of the agreement. Recourse may be had to supplementary means of interpretation in accordance with Article 32 of that Convention.

71. Commencing with the terms of the provision, we observe that Article 24.5 consists of a single sentence, of which the subject is "measures adopted to implement this Section". Article 24.5 appears in Section 3 of Part II of the TRIPS Agreement. Therefore, the reference to "this Section" is a reference to Section 3.

72. The principal verb in Article 24.5 is "shall not prejudice". There are various definitions of the verb "prejudice" used in the three authentic language versions of the TRIPS Agreement. The ordinary meaning of the verb "prejudice" in English can be defined as "affect adversely or unfavorably; injure or impair the validity of (a right, claim, etc.)". The latter part of this definition appears particularly apposite in this context since it refers to a right or claim, and the objects of the verb in Article 24.5 are legal rights. The objects of the principal verb in Article 24.5 are "the eligibility for or the validity of the registration of a trademark" and "the right to use a trademark". The context indicates the relevance of these rights in Article 24.5. The choice of words "the eligibility for or the validity of the registration of a trademark" reflects the fact that these are the aspects of trademark protection which might otherwise be prejudiced by the obligations to "refuse or invalidate the registration of a trademark" and that "registration of a trademark ... shall be refused or invalidated" in Articles 22.3 and 23.2. In the same way, the choice of the words "the right to use a trademark" reflects the fact that this is the aspect of trademark protection which would otherwise be prejudiced by the obligations to provide the legal means to prevent certain uses in Articles 22.2 and 23.1.

73. Even if the TRIPS Agreement does not expressly provide for a "right to use a trademark" elsewhere, this does not mean that a provision that measures "shall not prejudice" that right provides for it instead. The right to use a trademark is a right that Members may provide under national law. This is the right saved by Article 24.5 where it provides that certain measures "shall not prejudice ... the right to use a trademark". The context in other paragraphs of Article 24 confirms the Panel's interpretation of "the eligibility for or the validity of the registration of a trademark" and "the right to use a trademark", as used in paragraph 5. Other exceptions in that article also refer to the implications of these two types of protection. Paragraph 4 refers to "continued and similar *use* of a particular [GI] ... identifying wines and spirits"; paragraph 7 refers to "any request made under this Section in connection with the *use* or *registration of a trademark*"; and paragraph 8 refers to "the right of any person to *use*, in the course of trade, that person's name".

74. Therefore, according to their ordinary meaning read in context, the terms "shall not prejudice", "the eligibility for or the validity of the registration of a trademark" and "the right to use a trademark", as used in paragraph 5 of Article 24, indicate the creation of exceptions to the obligations to provide two types of GI protection in Section 3. Both these types of protection could otherwise affect the rights identified in paragraph 5. Indeed, the refusal or invalidation of the registration of a trademark has no other function but to extinguish the eligibility for or the validity of the registration of a trademark. Paragraph 5 ensures that each of these types of protection shall not affect those rights. Accordingly, the Panel considers that Article 24.5 creates an exception to GI protection - as reflected in the title of Article 24.

75. The Panel notes that the parties do not dispute that *Members* may comply simultaneously with both obligations in the TRIPS Agreement. They do not allege that there are conflicting provisions in the treaty itself. The general rule of treaty interpretation requires us to interpret the treaty in accordance with the ordinary meaning to be given to its terms in their context in the light of its object and purpose. The Panel has had recourse to supplementary means of interpretation, in particular a draft text, in order to confirm the meaning resulting from the application of the general rule of treaty interpretation, which has not left the meaning ambiguous or obscure or led to a result which is manifestly absurd or unreasonable. We would not adopt an approach

in treaty interpretation that produced a result that might, on one view, further the object and purpose of the Agreement, but which is not supported by the ordinary meaning to be given to its terms in their context. The following statement by the Appellate Body in *EC – Hormones* appears apposite:

> "The fundamental rule of treaty interpretation requires a treaty interpreter to read and interpret the words actually used by the agreement under examination, not words the interpreter may feel should have been used."

76. Therefore, the Panel concludes that, under Article 16.1 of the TRIPS Agreement, Members are required to make available to trademark owners a right against certain uses, including uses as a GI. The Regulation limits the availability of that right for the owners of trademarks which are subject to Article 14(2). Article 24.5 of the TRIPS Agreement is inapplicable and does not provide authority to limit that right.

77. The European Communities [raises a defense under] 17 of the TRIPS Agreement. Article 17 provides as follows:

> *"Exceptions*
>
> Members may provide limited exceptions to the rights conferred by a trademark, such as fair use of descriptive terms, provided that such exceptions take account of the legitimate interests of the owner of the trademark and of third parties."

78. Article 17 expressly permits Members to provide limited exceptions to the rights conferred by a trademark, which include the right provided for in Article 16.1 of the TRIPS Agreement. The Panel has already found that the Regulation limits the availability of the right provided for in Article 16.1. Therefore, to the extent that it satisfies the conditions in Article 17, this limitation will be permitted under the TRIPS Agreement. Article 17 permits "limited exceptions". It provides an example of a limited exception, and is subject to a proviso that "such exceptions take account of the legitimate interests of the owner of the trademark and of third parties". The ordinary meaning of the terms indicates that an exception must not only be "limited" but must also comply with the proviso in order to satisfy Article 17. The example of "fair use of descriptive terms" is illustrative only, but it can provide interpretative guidance because, *a priori*, it falls within the meaning of a "limited" exception and must be capable of satisfying the proviso in some circumstances. Any interpretation of the term "limited" or of the proviso which excluded the example would be manifestly incorrect.

79. The structure of Article 17 differs from that of other exceptions provisions to which the parties refer. It can be noted that Articles 13, 26.2 and 30 of the TRIPS Agreement, as well as Article 9(2) of the Berne Convention (1971) as incorporated by Article 9.1 of the TRIPS Agreement, also permit exceptions to intellectual property rights and all contain, to varying degrees, similar language to Article 17. However, unlike these other provisions, Article 17 contains no reference to "conflict with a [or the] normal exploitation", no reference to "unreasonabl[e] prejudice" to the legitimate interests" of the right holder or owner, and it not only refers to the legitimate interests of third parties but treats them on par with those of the right holder. It is also the only one of these provisions which contains an example. Further, Article 17 permits exceptions to trademark rights, which differ from each of the intellectual property rights to which these other exceptions apply. Therefore, whilst it is instructive to refer to the interpretation by two previous panels of certain shared elements found in Articles 13 and 30, it is important to interpret Article 17 according to its own terms.

Limited exceptions

80. The first issue to decide is the meaning of the term "limited exceptions" as used in Article 17. The United States interprets this in terms of a small diminution of rights. The European Communities does not disagree with this approach. The Panel agrees with the views of the Panel in *Canada – Pharmaceutical Patents*, which interpreted the identical term in Article 30, that "[t]he word 'exception' by itself connotes a limited derogation, one that does not undercut the body of rules from which it is made". The addition of the word "limited" emphasizes that

the exception must be narrow and permit only a small diminution of rights. The limited exceptions apply "to the rights conferred by a trademark". They do not apply to the set of all trademarks or all trademark owners. Accordingly, the fact that it may affect only few trademarks or few trademark owners is irrelevant to the question whether an exception is limited. The issue is whether the exception to the *rights conferred by a trademark* is narrow.

81. There is only one right conferred by a trademark at issue in this dispute, namely the exclusive right to prevent certain uses of a sign, provided for in Article 16.1. Therefore, it is necessary to examine the exception on an individual "per right" basis. This is a legal assessment of the extent to which the exception curtails that right. There is no indication in the text of Article 17 that this involves an economic assessment, although economic impact can be taken into account in the proviso. In this regard, we note the absence of any reference to a "normal exploitation" of the trademark in Article 17, and the absence of any reference in Section 2, to which Article 17 permits exceptions, to rights to exclude legitimate competition. Rather, they confer, *inter alia*, the right to prevent uses that would result in a likelihood of confusion, which can lead to the removal of products from sale where they are marketed using particular signs, but without otherwise restraining the manufacture, sale or importation of competing goods or services.

82. The right provided for in Article 16.1 contains several elements and an exception could, in principle, curtail the right in respect of any of them. We recall these elements in the text of that provision as follows:

> "The owner of a registered trademark shall have the exclusive right to prevent *all third parties* not having the owner's consent from using in the course of trade *identical or similar signs* for *goods or services which are identical or similar* to those in respect of which the trademark is registered where such use would result in *a likelihood of confusion*." [emphasis added]

83. In principle, an exception could curtail the right of the owner in respect of the third parties concerned, or with respect to the identity or the similarity of the signs or the goods or services concerned or with respect to the degree of likelihood of confusion, or some combination of these. There may be other possibilities as well. The overriding requirement is that the exception must be "limited" and it must also satisfy the proviso, considered below. These elements provide a useful framework for an assessment of the extent to which an exception curtails the right provided for in Article 16.1.

84. The example in the text, "fair use of descriptive terms", provides guidance as to what is considered a "limited exception", although it is illustrative only. Fair use of descriptive terms is inherently limited in terms of the sign which may be used and the degree of likelihood of confusion which may result from its use, as a purely descriptive term on its own is not distinctive and is not protectable as a trademark. Fair use of descriptive terms is *not* limited in terms of the number of third parties who may benefit, nor in terms of the quantity of goods or services with respect to which they use the descriptive terms, although implicitly it only applies to those third parties who would use those terms in the course of trade and to those goods or services which those terms describe. The number of trademarks or trademark owners affected is irrelevant, although implicitly it would only affect those marks which can consist of, or include, signs that can be used in a descriptive manner. According to the text, this is a "limited" exception for the purposes of Article 17.

85. Turning to the Regulation, it curtails the trademark owner's right in respect of certain goods but not all goods identical or similar to those in respect of which the trademark is registered. It prevents the trademark owner from exercising the right to prevent confusing uses of a sign for the agricultural product or foodstuff produced in accordance with the product specification in the GI registration. We recall that, according to Article 2(2) of the Regulation, which is set out above at paragraph 7.187, those goods must all be produced, processed and/or prepared in the region, specific place or, in exceptional cases, country, the name of which is used to describe them. Goods that are not from that geographical area may not use the GI. Further, according to Article 4 of the Regulation, all products using a GI must comply with a product specification. Products that do not so comply may not use the GI even if they are from the

geographical area. The trademark owner's right against all other goods is not curtailed. We note that there is no limit in terms of the quantity of goods which may benefit from the exception, as long as they conform to the product specification. However, this cannot prevent the limitation on rights of owners of trademarks subject to Article 14(2) from constituting a limited exception for the purposes of Article 17, as fair use of descriptive terms implies no limit in terms of quantity either, and the text indicates that it is a limited exception for the purposes of Article 17. The quantity of goods which benefits from an exception may be related to the curtailment of the rights to prevent the acts of making, selling or importing a product, but these are not rights conferred by a trademark.

86. The Regulation curtails the trademark owner's right against certain third parties, but not "all third parties". It prevents the trademark owner from exercising the right to prevent confusing uses against persons using a registered GI on a good in accordance with its registration. This is a limitation on the third parties who may benefit from the exception. The trademark owner's right is not curtailed with respect to any other third parties.

87. For the above reasons, the Panel finds that the Regulation creates a "limited exception" within the meaning of Article 17 of the TRIPS Agreement.

88. **CONCLUSIONS AND RECOMMENDATION**

a. In light of the findings set out in this report, the Panel concludes as follows:

i. the United States has made a prima facie case that the equivalence and reciprocity conditions in Article 12(1) of the Regulation apply to the availability of protection for GIs that refer to geographical areas located in third countries outside the European Communities, including WTO Members, and the European Communities has not succeeded in rebutting that case;

ii. the Regulation is inconsistent with Article 3.1 of the TRIPS Agreement:

1. with respect to the equivalence and reciprocity conditions, as applicable to the availability of protection for GIs;

2. with respect to the application procedures, insofar as they require examination and transmission of applications by governments;

3. with respect to the objection procedures, insofar as they require verification and transmission of objections by governments; and

4. with respect to the requirements of government participation in the inspection structures under Article 10, and the provision of the declaration by governments under Article 12a(2)(b);

iii. The Regulation is inconsistent with Article 16.1 of the TRIPS Agreement with respect to the coexistence of GIs with prior trademarks but this is justified by Article 17 of the TRIPS Agreement.

b. In light of these conclusions, the Panel recommends pursuant to Article 19.1 of the DSU that the European Communities bring the Regulation into conformity with the TRIPS Agreement and GATT 1994.