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Of Oceans, Islands, and Inland Water – How Much Room for Exceptions and Limitations Under the Three-Step Test?

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OF OCEANS, ISLANDS, AND INLAND WATER – HOW MUCH ROOM FOR EXCEPTIONS AND LIMITATIONS UNDER THE THREE-STEP TEST?

*Annette Kur**

OUTLINE

I. INTRODUCTION	288
II. DEFINITIONS AND SYSTEMATIC CONSIDERATIONS	289
1. <i>What is it all about?</i>	289
2. <i>Terminology</i>	290
3. <i>Islands in an ocean of protection, or vice versa?</i>	293
III. LIMITATIONS AND EXCEPTIONS IN COMMON LAW AND CIVIL LAW SYSTEMS (OVERVIEW)	295
1. <i>General remarks</i>	295
2. <i>“Fair use” vs. closed catalogues</i>	296
3. <i>“All or nothing” vs. remuneration rights</i>	299
IV. LIMITATIONS IN INTERNATIONAL INSTRUMENTS (OVERVIEW)	302
1. <i>The Berne Convention</i>	302
2. <i>TRIPS; WCT, WPPT</i>	303
3. <i>The Rome Convention</i>	304
4. <i>Industrial Property: The Paris Convention</i>	304
V. MORE PARTICULAR ON THE THREE-STEP TEST ...	305
1. <i>How the test took centre-stage</i>	305
2. <i>Provenance of the three-step test</i>	307
3. <i>The three-step test as embedded in TRIPS</i>	308
a) The wording of the provisions compared with each other	308
b) The TRIPS provisions compared with Article 9.2 Berne Convention	310
4. <i>The three-step test in the panel reports</i>	311
a) General remarks	311

* This paper has been prepared in the framework of the Intellectual Property in Transition Project (“IPT”). The project was initiated in 2001 with the aim to investigate from a legal viewpoint how an effective and ethically acceptable IP system should be constructed in order to offer a balanced instrument for the 21st century. The project’s research results are intended to be published in a separate publication (A Kur & M. Levin [eds.], *IP in Transition*, forthcoming 2009). Many thanks to Graeme Dinwoodie and Martin Senftleben, who have provided input to a previous version of this paper. Of course, all mistakes remain to be entirely mine.

b)	The main lines of argument in the panel reports	314
(i)	<i>General structure and first step</i>	314
(ii)	<i>The second step</i>	317
(iii)	<i>The third step</i>	322
c)	Summarizing the panels' approach	326
5.	<i>A fresh approach to the three-step test: Opting for flexibility</i>	328
a)	Legal effect of the panel reports	328
b)	Rulings by national courts	330
c)	Revisiting the roots: Article 9.2 Berne Convention	332
d)	Arguments derived from the TRIPS context	333
(i)	<i>Intellectual property as a trade related matter: "Property logic" reversed</i>	333
(ii)	<i>The Doha process and its impact on the interpretation of TRIPS norms</i>	335
(iii)	<i>The proportionality principle as an inherent feature of the WTO system</i>	337
6.	<i>Résumé and consequences: Guidelines for interpreting the three-step test(s) in TRIPS</i>	340
a)	The basic principles	340
b)	Reconstructing the scheme underlying the three-step test	340
c)	A presumption in favour of "freedom"?	341
7.	<i>Other (copyright) conventions – will the problem persist outside TRIPS?</i>	342
a)	Background	342
b)	The Berne Convention	343
(i)	<i>Article 9.2</i>	343
(ii)	<i>Article 11bis and the minor reservations doctrine</i>	344
c)	WCT and WPPT	346
VI.	CONCLUDING REMARKS	349

I. INTRODUCTION

Granting intellectual property (hereinafter "IP") rights is like setting a big ship on a straight course: While the course as such may, on the whole, lead to the aspired goal, corrections may be needed here and there in order to avoid dangerous or shallow waters. Traditionally, exceptions and limitations are used as tools for such fine-tuning – they do not challenge protection as such, but adapt its scope to exigencies arising in special, mostly atypical situations. With the advent of

the Trade-Related Intellectual Property Rights¹ (hereinafter “TRIPS”), the three-step test was introduced as the international yardstick to be observed in all areas of IP law with regard to the contents and reach of limitations and exceptions, thereby restricting the freedom of national legislatures to create such rules with a view only to their own domestic situation. Depending on the interpretation of the test, this may jeopardize the capacity of national systems to achieve the desired balance between protection and countervailing policy interests.

This paper will briefly outline the role and functions of limitations and exceptions within the system of IP law. Furthermore, it will investigate the origins as well as the current interpretation of the three-step test, with a critical focus on the evaluation of the WTO-Panel decisions dealing with Article 13 and Article 30 (and, to some extent, Article 17 of TRIPS). In addition, it will be explained why and how the interpretation by the WTO Panels is not doing full justice to the inherent flexibilities of the test, whose potential for a more balanced understanding in the context of TRIPS and other international instruments will be set out in the conclusion.

II. DEFINITIONS AND SYSTEMATIC CONSIDERATIONS

1. *What is it all about?*

It lies in the very nature of IP rights that they are “limited.”² This becomes most obvious in the fact that (with the notable exception of trademarks³), the rights *expire* after a certain period in time. Also the *requirements* to be fulfilled in order to obtain protection perform a limiting function of crucial importance: No patent will be granted for inventions that are not novel, not inventive enough and/or cannot be industrially applied; works not meeting the necessary threshold of originality are not eligible for copyright protection, and signs not capable of distinguishing goods or services will never become a trademark. In addition to those general requirements, most IP laws identify *specific subject matter* as non-protectable, such as (under EU law) com-

¹ Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, Annex 1C, 33 I.L.M. 1125 (1994) [hereinafter TRIPS].

² See SAM RICKETSON & JANE C. GINSBURG, INTERNATIONAL COPYRIGHT AND NEIGHBOURING RIGHTS 756 (Oxford Univ. Press 2d ed. 2006) (pointing at the fact that during the negotiations leading up to the Berne Convention, delegations were reminded by Numa Droz that “limits to absolute protection are rightly set by the public interest”).

³ The main reason why trademark rights do not expire lies in the fact that they do not exclude or even restrict competition with regard to the commodity designated by the mark, but only compel others making the same offer to use a different mark (which, at least in theory, are in indefinite supply).

puter programs when it comes to patenting,⁴ official texts or news of the day with regard to copyright,⁵ and, in case of trademarks, shapes that are necessary to achieve a technical result.⁶ Finally, the most complex and differentiated body of limitations is represented by rules which, in spite of a right being granted (and not having expired), pose an obstacle for the right holder to enforce it in specific situations – or, expressed the other way round, rules that function as *defences* against claims based on valid, unexpired rights. The classical example of this situation is the quotation right: Whereas the right to prohibit the reproduction and distribution of the work remains unchallenged as such, the copyright holder cannot enjoin others from using parts of it for quotation purposes, to the extent this complies with the requirements set out in Article 10(1) of the Berne Convention or its counterparts in national law. It is primarily that latter type of limitations which is addressed by the three-step test in TRIPS and other international instruments, and which will be in the focus of this paper.

The distinction made between limitations operating as defences and other rules which, though in different ways, likewise serve to limit the grant and extent of protection, raises several questions. First, it can be asked whether and in which way a terminological distinction should be made between both types of rules. Second – and, as some would posit, inextricably linked with the first question – one may inquire whether the classification as a “defence”-type of limitation implies a sort of substantive degradation of such provisions in comparison to the rules granting protection. From those considerations, a third question may emerge, namely whether the distinction made above is artificial and/or misguided in the sense that *all* rules limiting the ambit of exclusive rights are, or should be, of the same legal quality.

2. Terminology

Concerning the terminological aspect, no agreement or uniform practice seems to exist on the international level. For instance, Article 13 of TRIPS uses the terms “exceptions and (or) limitations”, seem-

⁴ Convention on the Grant of European Patents art. 52(2)(C)–52(3), Oct. 5, 1973, 13 I.L.M. 270, available at <http://www.epo.org/patents/law/legal-texts/html/epc/2000/e/ma1> [hereinafter European Patent Convention].

⁵ Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, as amended, July 14, 1967, art. 5.1, 1971 WL 123138, 828 U.N.T.S. 221 [hereinafter Berne Convention].

⁶ Council Directive 89/104, art. 3(1)(e), 1989 O.J. (L 40) 1 (EC); Council Regulation 40/94, art. 7(1)(e)(ii), 1993 O.J. (L 11) 1 (EC) [hereinafter CTMR]; see also 15 U.S.C. §1052(e)(5) (2008) (under U.S. law, a corresponding result would follow from the doctrine of functionality).

ingly treating them as synonyms.⁷ In Articles 17, 26.2 and 30 of TRIPS, however, the three-step test anchored therein refers to “(limited) exceptions”, thereby inviting the interpretation that “exceptions” is the more appropriate term to employ with regard to provisions falling into its ambit.⁸ Also in the WIPO-study undertaken by Sam Ricketson,⁹ it is suggested that the term “exceptions” be used for rules which “grant immunity from infringement proceedings for particular kinds of use” (i.e., the “quotation-type” of rules), whereas “provisions that exclude, or allow for the exclusion of, particular categories of works” should be called “limitations.”¹⁰

Other scholarly studies seem to disagree about the correct use and attribution of those terms.¹¹ Most notably, it has been argued *inter alia* by Christophe Geiger that the term “exception” appears to imply the view that such rules are inferior in ranking as compared to the rules granting protection, to the effect that modes of use declared admissible by virtue of exceptions are considered as “islands of freedom in an ocean of exclusivity.”¹² By referring to “limitations” instead, it

⁷ See also Council Directive 2001/29, art. 5(1), 2001 O.J. (L 167/10) 1 (EC); MARTIN SENFTLEBEN, COPYRIGHT, LIMITATIONS AND THE THREE-STEP TEST: AN ANALYSIS OF THE THREE-STEP TEST IN INTERNATIONAL AND EC COPYRIGHT LAW 22 (2004) (views the parallel use of both terms in Article 13 of TRIPS as a deliberate choice in order to encompass the two different copyright traditions, namely the natural rights-focused continental tradition (where “exception” would be considered as the more appropriate term), and the utilitarian approach of common law (which would prefer “limitation”).

⁸ TRIPS, *supra* note 1, arts. 17, 26.2, 30.

⁹ World Intellectual Property Organization Standing Committee on Copyright and Related Rights, *WIPO Study on Limitations and Exceptions of Copyright and Related Rights in the Digital Environment*, WIPO Doc. SCCR/9/7 (Apr. 5, 2003) [hereinafter WIPO Study].

¹⁰ *But see* JORG REINBOTHE & SILKE VON LEWINKI, THE WIPO TREATIES 128 (2004) (suggesting exactly the opposite, namely that “an exception to the right should be understood to be the farthest-reaching restriction, as it indicates that the right no longer applies in the particular case in question”, whereas a “limitation would restrict the right without depriving it of all its content.”); *see also* RICKETSON & GINSBURG, *supra* note 2, at 756–57 (A distinction is made between “subject matter limitations” and “use limitations” (with “use limitations requiring compensation” being listed as a third category)).

¹¹ See Pierre Sirinelli, *Exceptions and Limits to Copyright and Neighbouring Rights* (WIPO, Conference Paper, 1999) (giving an overview on the diversities of terminology); *see also* Jaap Spoor, *General Aspects of Exceptions and Limitations to Copyright: General Report*, in L BAULCH, M GREEN, & M WYBURN, THE BOUNDARIES OF COPYRIGHT: IT'S PROPER LIMITATIONS AND EXCEPTIONS 29 (1999).

¹² Reto M. Hilty & Christophe Geiger, *Der urheberrechtliche Interessenausgleich in der Informationsgesellschaft* [The copyright balance of interests in the information company] 815, 818 (2005); LUCIE GUIBAULT, COPYRIGHT LIMITATIONS AND

would become clearer that in reality, protection is to be regarded as “an island of exclusivity in an ocean of freedom.”¹³

It is true that the psychological importance of terminology should not be underestimated. However, prevailing attitudes and legal traditions can hardly be influenced, and even less be changed, by choice of terminology only. In addition, the colorful picture of islands and the ocean may not be complex enough to capture the specific character of the rules considered here. If IP rights in general are considered islands in a sea of freedom, the rules granting immunity for certain kinds of use, i.e. the “quotation-type” of limitations, might more adequately be described as pools of water forming within the island. The question whether the inland water is substantially different from the element surrounding the island may not always find a crystal-clear answer. Differences may exist – one is salty, whereas the other is often sweet, and both could be home to different kinds of fish. On the other hand, the essential point remains to be that water is not a surface on which houses can be built and crops can be harvested.

Leaving allegories aside, it seems that a crucial commonality exists between, on the one hand, the rules addressed in this paper and those governing the general boundaries of IP rights on the other, insofar as both command freedom of access to, and use of protected subject matter. Nevertheless, “quotation-type” limitations can regularly be distinguished from general protection requirements or subject matter exclusions by their specific position within the system,¹⁴ where they are treated as defence rather than as part of the claim. Accordingly, it seems that while arguments can be found for both sides, no cogent reasons exist for insisting on one or the other terminological choice.¹⁵ It is therefore a matter of working convenience rather than expressing a political statement, if this paper mainly, though not exclusively uses the term “limitation” for the “quotation-type” of rules, while the term “exception” is treated as a basically valid synonym. For clarification purposes, provisions *ab initio* excluding from protection of certain subject matter, like computer programs or official works, will be addressed as “exclusions.”

CONTRACTS: AN ANALYSIS OF THE CONTRACTUAL OVERRIDABILITY OF LIMITATIONS ON CONTRACT 17 (Kluwer Law Int'l 2002); *see also* Spoor, *supra* note 11, at 29–31.

¹³ Hilty & Geiger, *supra* note 12, 815, 818–19; Christophe Geiger, *Flexibilising Copyright – Remedies to Privatisation of Information by Copyright Law*, 39 INT'L R. INTELL. PROP. & COPYRIGHT 178, 193 (2008).

¹⁴ ACHIM FORSTER, FAIR USE 3 (Mohr Siebeck 2008).

¹⁵ *Id.* at 5.

3. *Islands in an ocean of protection, or vice versa?*

Whereas the terminological aspect as such does not appear to be of major importance, the ranking of limitations in the structure of IP rights forms a key aspect of IP policy. Two antagonistic views, clad in the picture of islands of freedom in an ocean of exclusivity or vice versa, were addressed above. In a somewhat simplified way, the thesis usually transported with that image contends that the first of these views, i.e. preponderance of exclusive protection over exceptions and limitations, corresponds to the attitude currently prevailing in IP circles, whereas the second approach with its accent on freedom would be a more appropriate tool for creating an IP system that is truly beneficial to society.¹⁶

For a closer analysis, the thesis can be divided into two parts. First, that there is no *structural difference* between rules formulated as exceptions and limitations and other rules limiting the potential ambit of exclusive rights, like the provisions governing the requirements for protection. Second, that in any case, limitations and exceptions should not be treated as “inferior” in ranking, in the sense that they are applied *more narrowly* than the provisions on which a claim for protection is based.

Concerning the first-mentioned aspect, limitations and exceptions are typically different from requirements for (or exclusions from) protection insofar as they regularly apply only *after* a right has been granted in the first place. However, that is not the only difference, nor is it actually crucial for the distinction. More decisive than that seems to be the way in which the *burden of pleading* is allocated to the parties of a conflict. If a particular element needs to be established by the *plaintiff* in order to make a valid claim, it forms part of the substantive *requirements*. However, where a specific *obstacle* hinders the enforcement of a claim whose validity has been established in principle, the burden to establish its existence is regularly on the *defendant*.

Whether a rule belongs to one or the other category is not necessarily determined by its substantive content and objectives. For instance, in trademark and patent law alike, private uses do not fall into the ambit of the rights conferred. However, in (European) trademark law, the requirement of commercial use forms part of the *claim*, whereas in patent (and industrial design) law, use for private purposes

¹⁶ Hilty & Geiger, *supra* note 12, 815, 818; see also Christophe Geiger, *De la nature juridique des limites du droit d'auteur* [Of the juridical nature of the borders of the copyright], 13 PROP. INTELL. 882 (2004); Reto. M. Hilty, *Sündenbock Urheberrecht?* [Copyright Scapegoat?] in DIETHELM KLIPPEL & ANSGAR OHLY, GEISTIGES EIGENTUM UND GEMEINFREIHEIT [Spiritual Property and Common Freedom] 107, 110 (2007), citing WILLIAM RODOLPH CORNISH, INTELLECTUAL PROPERTY: OMNIPRESENT; DISTRACTING; IRRELEVANT? 113 (2004).

is part of the *defence*. It seems to comply with a general understanding – and is endorsed as the point of departure for this paper – that (only) the latter rule constitutes a limitation in a strict legal sense.¹⁷ The distinction is therefore a matter of legal construction – how has the element been integrated into the corpus of legal rules governing the conflict? In civil law systems, that question would have to be answered with a view to the structure of the legal text and the position assigned to the relevant provision therein. While such an analysis does not always lead to conclusive results,¹⁸ it usually furnishes a reliable basis for characterizing a given rule as part of the claim or as a defence. Correspondingly, in the common law system, the relevant indication would have to be found in jurisprudence.

If that scheme is accepted as a general basis, it follows that the party invoking a limitation has indeed the “disadvantage” of having to bear the burden of pleading and, where that is of relevance, of adducing factual evidence. The practical importance of that effect should not be underestimated. However, as a purely “technical” consequence, it is due to general considerations of procedural efficiency and convenience rather than expressing specific attitudes or policies, or even implying negative value judgments.

To be distinguished from the structural analysis and its procedural consequences is the issue addressed in the second part of the contention set forth above, namely that to conceive of a rule as a defence is often regarded as reflecting a pattern of rule and exemption, thereby regularly compelling a narrow interpretation of the latter. However – and with reservations to be made regarding legal systems this author is not aware of –, it appears that the methodological rule, if it ever existed, nowadays is generally considered as flawed and obsolete. Rather than applying a schematic approach of rule and exemption, each legal provision, whether constituting a claim or a defence, must be interpreted in accordance with the aim and purpose expressed

¹⁷ See P. Bernt Hugenholz & Ruth L. Okediji, *Conceiving an International Instrument on Limitations and Exceptions* 19 (Open Society Institute, 2008); available at http://www.soros.org/initiatives/information/articles_publications/publications/copyright_20080506/copyright_20080506.pdf (It is noteworthy that the concept of limitations and exceptions until now has not been thoroughly explored, at least not on the international level. The issue is indeed of some relevance for the question which types of rules are subject to the three-step test).

¹⁸ See Directive 2001/29, *supra* note 7, art. 5(1) (The term “exempted” is used, which usually indicates that the purpose is to exclude the acts mentioned *ab initio*, whereas the general chapeau of the provision is “Limitations and Exceptions”. Remaining within the image used above, this can be compared to a situation when it is impossible to tell whether what looks like a lake is in reality an inlet from the open sea).

therein.¹⁹ The principle has been adequately described by pointing out that interpretation of limitations must neither be narrow nor broad – it must quite simply be “correct”.

It is still another question, however, whether in a particular legal system, superiority is generally and deliberately assigned to protecting interests as compared to countervailing values, in particular to freedom of competition access and use. This is a legal policy choice that basically every legislature is entitled to make for itself. Whether or not a legal system adopts such a rule will typically depend on overarching considerations, quite often founded on a constitutional background. For instance, the German Constitutional Court has declared that as a matter of principle, authors must be able to draw benefits from each and every exploitation of their work.²⁰ As long as that decision stands as an authoritative interpretation of constitutional law, it can hardly be argued, with regard to the German system, that in case of doubt, aspects of free competition must regularly be given preference.²¹ Vice versa, in systems where IP protection is based on purely utilitarian considerations,²² with the aim of fostering dynamic competition being in the foreground, the postulate that free access and use should prevail unless a clear case can be made for the appropriateness of protection fits smoothly into the picture.

III. LIMITATIONS AND EXCEPTIONS IN COMMON LAW AND CIVIL LAW SYSTEMS (OVERVIEW)

1. *General remarks*

Whereas limitations and exceptions can be found in all fields of IP law, it is the area of copyright and related rights that offers the richest variety of such rules. In addition, it is with regard to copyright

¹⁹ See FORSTER, *supra* note 14, at 107; *see also*. FRANZ BYDLINSKI, GRUNDZÜGE DER JURISTISCHEN METHODENLEHRE [Main features of the juridical method apprenticeship] 81 (2005); CLAUS-WILHELM CANARIS & KARL LAREN, METHODENLEHRE DER RECHTSWISSENSCHAFT [Method of jurisprudence apprenticeship], 175 (1999); RALPH CHRISTENSEN & FRIEDRICH MÜLLER, JURISTISCHE METHODIK [Juridical Methodology], vol. I, n.373 (2004).

²⁰ Bundesverfassungsgericht [BverfG] [German Constitutional Court] 229 Entscheidungen des Bundesverfassungsgerichts [BverfGE] 481, 1972 (F.R.G.).

²¹ Compare Forster, *supra* note 14, at 183, with Thomas Hoeren, *Urheberrecht in der Informationsgesellschaft* [Copyright in the Information Society] 866, 869 (German Association for Industrial Property and Copyright Law 1997), and Hilty, *supra* note 16, at 107, 111, 122 (however, as an appeal to re-think and change the currently prevailing choice of legal policy, the pro-competition arguments retain their value).

²² This applies in particular to the American system. See SENFLITEN, *supra* note 7, at 14; FORSTER, *supra* note 14, at 9.

and related rights that the differences existing between civil law and common law systems (as represented by European and American law respectively) are the most prominent. This is reflected in two distinct features characterizing and distinguishing the systems from one another: First, whereas civil law systems traditionally favour enumerative and conclusive catalogues of limitations, United States copyright law contains an open “fair use” clause that is applied on a case by case basis by the courts.²³ Second, whereas under United States copyright law, to decide in favour of “fair use” means that the use made is in fact free, civil law countries often choose a “middle route” by making use admissible against payment of remuneration – a technique also apostrophised as “licenses by law.”

2. “Fair use” vs. closed catalogues

The virtues and drawbacks of a fair use clause in comparison to a closed catalogue of limitations have often been examined.²⁴ It is obvious that one has the advantage of flexibility, which becomes increasingly important in an age of rapid technological change, while the other is superior in terms of legal security and reliability. The issue has incited renewed interest in the context of TRIPS and the WCT/WPPT,²⁵ with the argument being raised that judge-made exceptions based on “fair use” would not live up to the standard of certainty compelled by the three-step test.²⁶ However, though the argument cannot be taken lightly, most authors have come to the conclusion that the fair use clause in its application by United States’ courts does not fail to meet the requirements under international law.²⁷

²³ WIPO Study, *supra* note 9, at 73 (presenting *Australian* copyright as a third model, which combines features of the other two. It includes many detailed exceptions, but also some rather broad provisions reflecting the U.S. fair use-formula. As Ricketson puts it, the result “is a patchwork of exceptions and compulsory licenses that has come about by a steady process of accretion accommodation of conflicting interests, and it is not always easy to see a coherent set of principles that underlies the whole”. On the other hand, it is also stressed that the law becomes more transparent and easier to analyze).

²⁴ See, e.g., FORSTER, *supra* note 14.

²⁵ See generally Julie E. Cohen, *WIPO Copyright Treaty Implementation in the United States: Will Fair Use Survive?* 21 EUR. INT. PROP. REV. 236 (1996).

²⁶ See Jehoram H. Cohen, *Einge Grundatze zu den Ausnahem im Urheberrecht [Some Principles to the Exceptions in Copyright]* 807, 808 (German Association for Industrial Property and Copyright Law 2001); Joachim Bornkamm, *Der Dreistufentest als urheberrechtliche Schrankenbestimmung – Karriere eines Begriffs [The 3 step test as a copyright barrier regulation – career of a concept]* in Hans-Jürgen Ahrens et al., *Festschrift für Willi Erdmann [Commemorative Writing for Willi Erdmann]*, 29, 45–46 (2002) (Each provided negative responses).

²⁷ See SENFTLEBEN, *supra* note 7, at 162; FORSTER, *supra* note 14, at 191.

Without being able to examine the issue more thoroughly, that result appears plausible. It must be considered that in spite of United States jurisprudence insisting on a strictly case-oriented approach, the common law rules ensuring the binding power of precedents in general do provide for a certain amount of legal security. Notwithstanding the fact that the suggestion to formulate certain “bright line rules” is constantly rejected, United States’ courts do apply the pattern of factors set out in Section 107 of the Copyright Act in the way it has been explored and developed in the leading cases,²⁸ thereby offering a relatively stable basis for parties to plead their case and structure their arguments. Finally, Section 107 is complemented in practice by a number of guidelines²⁹ as well as by specific and rather detailed statutes in particular fields.³⁰

Nevertheless, the fact remains that the United States copyright system is considerably more flexible with regard to limitations than its European counterpart. This may result in a more reserved attitude vis-à-vis the exercise of exclusive rights, as has become visible in some of the more recent decisions.³¹ It is also undeniable that the richness and fragmentation of United States case law render it difficult to attain a comprehensive picture. Furthermore, studies comparing decisions that appear to pertain to closely similar cases have revealed a considerable amount of inconsistencies.³² Notwithstanding the generally positive view taken on the fair use clause and its compatibility with the three-step test, the question therefore lingers on whether the present degree of flexibility will remain unaffected by a tightened regime operating on the international level.³³

²⁸ 17 U.S.C. § 107 (2008); *see, e.g.*, *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 576–93 (1994); *Harper & Row Publishers Inc. v. Nation Enterprises*, 471 U.S. 539, 552–64, 568–69 (1984); *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 432–33 (1984).

²⁹ *See generally* Kenneth Crews, *The Law of Fair Use and the Illusion of Fair Use Guidelines*, 62 OHIO ST. L.J. 599 (2001) (providing a detailed, and critical, account of fair use guidelines).

³⁰ This was the case also in the conflict brought before the WTO panel. *See infra* Part V.4.

³¹ *See, e.g.*, *Blanch v. Koons* 467 F.3d 244 (2d Cir. 2006); *Kelly v. Arriba Soft*, 336 F.3d 811 (9th Cir. 2003).

³² *See, e.g.*, David Nimmer, *The Public Domain Fairest of Them All, and Other Fairy Tales of Fair Use*, 66 LAW & CONTEMP. PROBS. 263 (2003).

³³ WIPO Study, *supra* note 9, at 68–69 (concluding that it is quite possible that any specific judicial application of Section 107 will comply with the three-step test as a matter of fact, but that “the real problem. . . is with a provision framed in such a general and open-ended way”, and concluding that issues may be raised with regard to the first and third steps).

The civil law systems represented by EU Member States clearly appear more stable and calculable in comparison. However, they provide no guarantee for a strictly uniform application of the law. Whenever legal notions are involved that are open for normative assessment, it can and will occur that judges interpret its meaning differently, thereby warranting outcomes that might appear inconsistent. As judges in a civil law system typically do not give full account of the deliberations leading to one or the other conclusion, but instead postulate that "this is what the law says," the possibility for parties to know beforehand which aspect will become decisive can be quite dim. Furthermore, where the result dictated by an unequivocally worded statute would strongly contradict a judge's sense of equity and fairness, resort is sometimes taken to general, overarching principles like constitutional freedoms or rules extracted from other legal fields, like antitrust or unfair competition. While such reactions may be understandable and welcome in the individual case, they are also liable to undermine the trust in the reliability and self-sufficiency of legal statutes, which lies at the heart of the civil law system. This has sometimes been described as a symptom of the fact that existing, conclusive catalogues of limitations are necessarily proving insufficient due to the dynamism of technological and economic development in connection with the increasing complexity of legal rules.³⁴ The proposal has therefore been advanced that, instead of forcing courts to look for solutions outside the proper legislation, the catalogues should be complemented by a clause allowing for application in similar cases, thereby bringing the European system a bit closer to the American approach.³⁵

It is an open question whether such tentative moves towards a higher degree of flexibility would be contravened, or rather encouraged,³⁶ by the three-step test which has been expressly integrated into European copyright law as a requirement to be observed along

³⁴ See Annette Kur, *Funktionswandel von Schutzrechten: Ursachen und Konsequenzen der inhaltlichen Annäherung und Überlagerung von Schutzrechtstypen* [Functional Change of Protective Rights: Causes and Consequences of the Content Approach and Overlapping of Protective Right Types], in GERHARD SCHRICKER ET AL., *GEISTIGES EIGENTUM IM DIENST DER INNOVATION* [Spiritual Property in the Service of Innovation] 23, 49 (2002); Bernt Hugenholtz, *Why the Copyright is Unimportant, and Possibly Invalid*, 2000 EUR. INTELL. PROP. R. 499, 500 (2000).

³⁵ FORSTER, *supra* note 14, at 211; Sirinelli, *supra* note 11, at 18; Hoeren, *supra* note 21, at 886, 871; see ROBERT BURRELL & ALLISON COLEMAN, *COPYRIGHT EXCEPTIONS: THE DIGITAL IMPACT* 249 (2005) (providing a comparative discussion of U.S. and UK law advocating more flexible application of limitations).

³⁶ A bold step in the direction of a "European Fair Use Clause" in copyright was taken by the Barcelona Appeal court, decision of 17 September 2008. See *infra* Part V.5.b.

with, or in addition to, the “classical” limitation catalogues.³⁷ In particular, it is unclear whether courts³⁸ will, in the light of the test, apply an even stricter and narrower way of construing the explicit limitations set out in the law than what would result from traditional methods of interpretation.³⁹

3. “All or nothing” vs. remuneration rights

No indication exists for an approximation of approaches in regard of the second distinguishing feature mentioned above, i.e. the question whether limitations allow for use that is free of charge or whether in certain cases, they only restrict the exclusive right in the sense that no permission by the right holder is needed, but obliging the user to pay a fair remuneration.⁴⁰ The reluctance of, in particular, the American copyright system to implement such a solution has many reasons. First, it may seem contradictory to subject use which was found to be “fair” to an obligation for payment. Second, replacing exclusivity by a remuneration right may recall the concept of compulsory licences (which is indeed what such regulations are sometimes called),⁴¹ that traditionally evokes strong misgivings in IP law. Finally, the administration of such rights undeniably creates transaction costs, which are deemed undesirable from an economic point of view. In a worst case-scenario, both right holders and users may either lose or gain nothing in the trade, while nourishing a rich and self-endorsing layer of intermediate institutions.

From a European viewpoint, however, legal limitations, compensated by remuneration due to the authors and/or right holders, are considered a welcome and useful mechanism for fine-tuning the balance between protection and free use. This concerns, in particular, mass markets or other situations when it is practically impossible to

³⁷ Council Directive 2001/29, *supra* note 7, art. 5(5); Council Directive 96/9 1996 O.J. (L 77) 15 (EC); Council Directive 91/250, art. 6, 1991 O.J. (L 122) 1 (EEC); SENFTLBERG, *supra* note 7, at 245.

³⁸ SENFLEBEN, *supra* note 7, at 270; Christophe Geiger, *The Three-Step Test, a Threat to a Balanced Copyright Law?* 37 INT'L R. INTELL. PROP. & COPYRIGHT 683, 689 (2006).

³⁹ See Cass. 1e civ., Feb. 28, 2006, Bull. Civ. I, No. 549 (Case Nos. 05-15.824 & 05-16.002) (Fr.) (edited translation available in 37 INT'L R. INTELL. PROP. & COPYRIGHT 670 (2006)); see also Geiger, *supra* note 38 (providing a critical commentary).

⁴⁰ The question has been posed as to whether such “remuneration rights” can at all be considered as a type of “limitations and exceptions” falling under the three-step test. See Hugenholtz & Okediji, *supra* note 17, at 19, n.63. However, to deny that question would hardly appear as a tenable position – even though the right holder is compensated, the right is derobed of its basically characteristic element of exclusivity.

⁴¹ WIPO study, *supra* note 9, at 4.

monitor and enforce individual rights, but where economic benefits to the right holder shall still be ensured. The philosophy has also left an imprint on the Berne and Rome Conventions, where Member States are given leeway to declare certain modes of use as non-exclusive, under the condition that fair remuneration is paid. Also when the three-step test was introduced in 1967, the chairman of Committee I, Eugen Ulmer, put forward the idea that the question of whether a particular use constituted “unreasonable prejudice” to authors depended *inter alia* on the remuneration that might (or might not) be offered.⁴² Although this position was later criticized as an “unjustified interpolation” to Article 9.2 of the Berne Convention,⁴³ Ricketson and Ginsburg point out that Ulmer’s statement remained without objection and was adopted as part of the Committee’s report, which constitutes an “authentic supplementary aid to interpretation.”⁴⁴

Indeed, the argument that reducing the scope of exclusive rights does not (necessarily) mean that such use is free of central importance in the arsenal of those who strongly endorse a more proactive approach of courts and legislatures towards the creation of new, or broadening of existing, limitations.⁴⁵ The position is bolstered by the fact that, depending on the legal construction, such remuneration rights may be constructed as (unalienable) entitlements accruing directly to the original creators⁴⁶—the authors—thus proving more beneficial for their interests than a full exclusive right, which will often be transferred to derivative right holders (“exploiters”).⁴⁷ The point was expressly emphasized in recent decisions by the German Federal Supreme Court,⁴⁸ as well as by the Supreme Court of Switzerland and

⁴² RICKETSON & GINSBURG, *supra* note 2, at 775 (citing RECORDS OF THE STOCKHOLM REVISION CONFERENCE 1967, vol. I, 1145–46) (stating that Ulmer’s statement was obviously inspired by the levy system introduced in the (then) new German copyright act of 1965 as a source of remuneration for private copying).

⁴³ *Id.* (citing HENRI DESBOIS ET AL., LES CONVENTIONS INTERNATIONALES DU DROIT D’AUTEUR ET DES DROITS VOISINS [THE INTERNATIONAL CONVENTIONS OF THE RIGHT OF AUTHOR AND RIGHTS OF NEIGHBORS] 207 (1976)).

⁴⁴ *Id.* (referring to the Vienna Convention on the Law of Treaties art. 32, May 23, 1969, 1155 U.N.T.S. 331 [hereinafter VCLT]).

⁴⁵ KLIPPEL & OHLY, *supra* note 16, at 107, 121, 123.

⁴⁶ See e.g., Council Directive 2006/115, art. 5, 2006 O.J. (L 376) 1 (EC) (stating that it is characteristic for such legal constructions that they are subject to mandatory collective management); see also *infra* note 48.

⁴⁷ The potential divergence of interests between the original copyright owners (“authors”) and derivative right holders (“exploiters”), is one of the characteristics of modern copyright. Cf. Hilty, *supra* note 16, at 113; see also *A Balanced Interpretation of the “Three-Step Test” in Copyright Law*, 39 INT’L R. INTELL. PROP. & COPYRIGHT 707, 708 (2008).

⁴⁸ Bundesgerichtshof [BGH] [Federal Court of Justice] July 11, 2002, I ZR 255 (F.R.G.).

the chairman of Committee I, Eugen Ulmer;⁴⁹ it has become a constant factor in legal policy debates.

Of course, it is not ignored that administration of remuneration rights creates its own transaction costs. However, the drawbacks this implies are generally considered manageable. The necessary infrastructure is provided by collective rights management societies who traditionally assume a strong position in (continental) European copyright law.⁵⁰ More recently, the positive picture has become somewhat blurred. While collective administration societies tend to present themselves as strongholds of cultural diversity and social responsibility, they have come under attack for allegedly encrusted structures and lack of transparency in their dealings with authors and users.⁵¹ In addition, frictions emerge from the fact that digital rights management makes it possible for right holders to employ pay-per-use business models. The question whether and how such schemes can be reconciled with traditional ways of procuring payment by collecting societies is currently among the much-debated topics in European copyright law.⁵²

Another aspect to be considered, in connection with the middle route offered by limitations against payment of remuneration, is whether such solutions would, in the long run, stifle rather than promote flexibility as a dynamic concept, given that, as a rule, obligations for payment would need a secure basis in detailed statutes. Finally, it should be noted that until recently remuneration rights seem to be an established feature only in copyright, if at all. They are practically

⁴⁹ Bundesgericht [BGer] [Federal Court] May 21, 2007, *Entscheidungen des Schweizerischen Bundesgerichts* [BGE] 133 (F.R.G.); Bundesgericht [BGer] [Federal Court] June 26, 2007, No 4C73/2007, available in 39 INT'L R. INTELL. PROP. & COPYRIGHT 990 (2008); see also Christophe Geiger, *Rethinking Copyright Limitations in the Information Society – The Swiss Supreme Court Leads the Way*, 39 INT'L R. INTELL. PROP. & COPYRIGHT 943 (2008).

⁵⁰ The paramount importance of collective rights management organizations in this context is reflected inter alia in the fact that for some remuneration rights, collective management is mandatory according to domestic copyright law. See generally Silke v. Lewinski, *Mandatory Collective Administration of Exclusive rights – a case Study on its Compatibility with International and EC Copyright law*, UNESCO E-COPYRIGHT BULLETIN, Jan.–Mar. 2004 available at http://portal.unesco.org/culture/en/files/19552/11515904771svl_e.pdf/svl_e.pdf (examining and denying the question whether this modality of exercise falls under the three-step test).

⁵¹ Commission Recommendation, 2005 O.J. (L 276) 55; see also Commission Decision of 16 July 2008, COMP/38698 (CISAC) (prohibiting contractual practices of 24 collecting societies allegedly violating Article 81 EC).

⁵² See, e.g., Silke von Lewinski, *Stakeholder Consultation on Copyright Levies in a Converging World*, 38 INT'L R. INTELL. PROP. & COPYRIGHT 65 (2007).

unknown in other fields of IP where a need for more flexibility might likewise occur.

IV. LIMITATIONS IN INTERNATIONAL INSTRUMENTS (OVERVIEW)

1. *The Berne Convention*

As international instruments in the field of IP are traditionally founded on the concept of minimum protection granted to the right holder, it appears natural that they are usually not concerned with the way in which those rights should be limited. However, there are exceptions to that rule, the large majority of them concerning copyright.⁵³ In particular, the Berne Convention is relatively rich with examples for limitations that Member countries may provide.⁵⁴ Concerning the quotation right, the provision is even clad in mandatory language:⁵⁵ Such use *shall* be permissible if the further requirements set out in the article are fulfilled.⁵⁶

Other limitations in the Berne Convention are optional; in part, they foresee that the authors in any case remain entitled to a claim for fair remuneration. A prominent example of an optional limitation is, of course, Article 9.2, the first codification of the three-step test, regarding the reproduction right.⁵⁷ Additionally, Article 10.2 permits the use of literary or artistic works for teaching purposes to the extent this is compatible with fair practices.⁵⁸ Article 10bis.1 allows legislatures to permit reproduction of articles published in newspapers or periodicals on current events, in case that reproduction has not been expressly reserved, and that the source is cited.⁵⁹ Article 10bis.2 gives a basis for allowing reproduction and making available to the public for purposes of news reporting literary or artistic works seen or heard in the course of current events.⁶⁰ Regarding the entitlements under the broadcasting right anchored in Article 11bis.1, the Berne Convention even leaves it to member states to determine the conditions under

⁵³ See generally Hugenholtz & Okediji, *supra* note 17.

⁵⁴ See RICKETSON & GINSBURG, *supra* note 2, at 759, §§ 13.03–39.

⁵⁵ See Annette Kur & Henning Große Ruse-Khan, *Enough is Enough – The Notion of Binding Ceilings in International Intellectual Property Protection* (Max Planck Inst. for Intellectual Prop., Competition & Tax Law Research Paper Series No. 09-01) available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1326429 (providing more information on mandatory limitations, and in particular on Article 10.1 Berne Convention).

⁵⁶ Berne Convention, *supra* note 5, art. 3.

⁵⁷ *Id.* art. 9.

⁵⁸ *Id.* art. 10.

⁵⁹ *Id.* art. 10bis.

⁶⁰ *Id.*

which those rights can be exercised, thus leaving considerable freedom to legislatures to introduce limitations applying within their own territory.⁶¹ However, the reservation is made that the moral rights of the author must be respected and his right to obtain equitable remuneration shall not be prejudiced thereby.⁶² Furthermore, in Article 11bis.3 it is stipulated that whereas the recording of broadcasts as a matter of principle is not implied in permission given for the broadcast as such, so-called ephemeral recordings are permissible if foreseen by national legislation.⁶³ In addition, the so-called minor reservations doctrine may be mentioned here as a generally accepted basis for *de minimis* types of limitations that are not expressly mentioned in Article 11bis.⁶⁴ Finally, Article 13.1 allows countries to introduce reservations and conditions where the authors of music and lyrics have consented to the recording of the words and the music together, subject to the right to obtain equitable remuneration.⁶⁵ In effect, countries may therefore set up non-voluntary license schemes (remuneration rights) for the sound recordings of such works.

In addition to the limitations just mentioned, the Berne Convention also excludes, or allows the exclusion of, certain subject matter *ab initio* from copyright protection. A mandatory rule, which is however generally believed to be a clarification, is set out in Article 2.8 where it is stipulated that protection "shall not apply to news of the day or to miscellaneous facts having the character of mere items of press information."⁶⁶ More important are Article 2.2, which leaves it to the member states to restrict copyright protection to works that have been fixed in a material form, and Article 2.4, allowing for exclusion of official texts of a legislative, administrative and legal nature, and of translations of such texts.⁶⁷

2. TRIPS; WCT; WPPT

Exclusions as to certain subject matter can also be found in the copyright part of TRIPS as well as in the WCT. Both treaties exclude ideas, procedures, methods of operation and mathematical concepts⁶⁸ as well as data per se.⁶⁹

⁶¹ *Id.* art. 11bis.

⁶² *Id.*

⁶³ Copyright Panel Report, *infra* note 101, ¶¶ 6.90, 6.158

⁶⁴ *See infra* Parts V.2 & V.7(b)(ii).

⁶⁵ Berne Convention, *supra* note 5, art. 13.

⁶⁶ *Id.* art. 2.

⁶⁷ *Id.*

⁶⁸ *See, e.g.*, TRIPS, *supra* note 1, art. 9.2; WIPO Copyright Treaty, art. 2 December 20, 1996, S. Treaty Doc. No. 105-17, 36 ILM 65 [hereinafter WCT].

⁶⁹ *See, e.g.*, TRIPS *supra* note 1, art. 10.2; WCT *supra* note 68, art. 5.

3. *The Rome Convention*

The Rome Convention is already less comprehensive than the Berne Convention with regard to the minimum rights members need to grant to performing artists, producers and broadcasting companies. Accordingly, those rights may be limited *ab initio* in certain aspects, e.g. concerning the broadcast or public performance of sound recordings that have been released on the market. In such cases, however, it is stipulated in Article 12 Rome Convention that remuneration must be paid to the performer, the producer, or to both.⁷⁰ Optional limitations and exceptions from the minimum rights provided by the Rome Convention are found in Article 15.1.⁷¹ This concerns the right to private use, use of brief excerpts in connection with news reporting, ephemeral fixations in connection with broadcasting, and use for teaching or scientific purposes. In addition, national legislatures are free to extend limitations that are admissible under the Berne Convention with regard to works of copyright, also to the rights of performers, producers, and broadcasting organizations.

4. *Industrial Property: The Paris Convention*

Compared with copyright law and related rights, the international instruments heretofore existing in the field of industrial property hardly offer any example for limitations and exceptions. Rather than reflecting a particularly restrictive attitude, however, this is primarily due to the fact that by contrast to Article 2 Berne Convention, the Paris Convention only makes reference to the subject matter it intends to cover, without defining what shall constitute a patent, a trademark, etc., and without determining the requirements under which protection must, in general, be granted.⁷² It is, therefore, left to the member states to define and regulate those conditions, which implies the freedom to exclude certain subject matter from protection. The same applies to the limitation of rights granted; as the Paris Convention—by contrast to the Berne Convention—does not undertake the regulation of the contents and scope of rights conferred by the title of a patent or trademark, there is no pertinent need to address the issue of limitations.

However, some exceptions can still be found. Most remarkably, this concerns Article 5ter Paris Convention, which stipulates in a mandatory form that the use of patented devices onboard vessels or

⁷⁰ International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, art. 12, Oct. 26, 1961, 496 U.N.T.S. 43 [hereinafter International Convention for the Protection of Performers].

⁷¹ *Id.* art. 15.

⁷² See generally Paris Convention for the Protection of Industrial Property, Sept. 28, 1979, 21 U.S.T. 1583, 828 U.N.T.S. 305 [hereinafter Paris Convention].

the use of such devices in the construction or operation of aircraft and land vehicles shall not be considered as patent infringement if the vessel, aircraft, or land vehicle is of another country and only temporarily or accidentally enters the territory of a country where the patent enjoys protection.⁷³ This clause reflects the general opinion of the states represented in the Paris Assembly that ensuring free movement of vehicles is a more important goal than enforcing a protected patent in a situation which, after all, will hardly cause any significant harm to the patent holder.⁷⁴ Other examples of mandatory limitations cited in the Hugenholtz & Okediji study concern the mandatory invalidation of trademarks that interfere with protected symbols (including the Olympic symbol where a country is member to the Nairobi treaty), and in case of conflict with well-known marks in the meaning of Article 6bis Paris Convention.⁷⁵ However, in regards to the latter, the rule is about resolving a conflict between two distinct (private) parties claiming a right to the same item and does not fit into the scheme of limitations seeking to secure access for persons who do not claim to have a superior title in that very right.⁷⁶

V. MORE PARTICULAR ON THE THREE-STEP TEST

1. *How the test took centre-stage*

It follows from the overview just given that international law heretofore has contained very few provisions dealing with limitations and exceptions and that most of them are tailored for specific situations. The picture changed dramatically when, among the many mixed blessings that TRIPS has brought upon the international IP community, the three-step test was installed as a general yardstick against which limitations and exceptions must be measured in all fields of IP.

⁷³ *Id.* art. 5ter.

⁷⁴ G.H.C. BODENHAUSEN, *PARISER VERBANDSÜBEREINKUNFT ZUM SCHUTZ DES GEWERBLICHEN EIGENTUMS* [PARIS CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY] 69, 339, 577 (1968) (referring to the minutes of the Revision Conference at Den Haag (1925)).

⁷⁵ Hugenholtz & Okediji, *supra* note 17, app. B.

⁷⁶ However, if the term "limitations" is understood in a broader sense, protection of marks that are not "prior rights" in the usual sense (like well-known marks) might figure in a scheme of limitations, *see* Kur & Ruse-Khan *supra* note 55, at 19–21. Lastly, regarding exclusion *ab initio*, reference is made by Hugenholtz & Okediji to Article 52 and 53 EPC that exclude certain types of inventions from protection. Hugenholtz & Okediji, *supra* note 17, app. B. However, as the EPC is rather atypical regarding the dense texture of its provisions (resembling a piece of national legislation rather than an international text), it is left out of consideration here.

Regarding *industrial property*, the insertion of express provisions into TRIPS on the admissibility of limitations constitutes a corollary to the fact that, contrary to the Paris Convention, TRIPS contains definitions of protectable subject matter and undertakes to determine the minimum level of rights conferred.⁷⁷ Therefore, it appeared necessary to define the conditions under which countries might derogate (partly) from the obligations thus imposed. On the other hand, regarding *copyright*, the fact that WTO Member States were already bound to the Berne Convention implied a certain amount of regulation concerning limitations and exceptions, so that it might have been sufficient if, following the example of previous Berne provisions, specific exceptions had been coined only with regard to newly introduced subject matter such as computer programs and data compilations. It seems that the first draft for a limitations provision to be included into TRIPS did pursue that route,⁷⁸ but was later abandoned, probably for reasons of convenience.⁷⁹

When it comes to the interpretation of the three-step test, much weight is attributed to the three WTO panel reports dealing with the issue in patent, copyright, and trademark law.⁸⁰ Indeed, the interpretation undertaken by the panels at times appears to be regarded world-wide as a quasi-canonical exegesis of the respective TRIPS articles. However, that view does not go unchallenged.⁸¹ Also in the following, an attempt is made to show that the way in which the three-step test has been interpreted by the WTO-Panels is by no means strictly warranted in light of the history, structure, and wording of the provisions.

⁷⁷ On the previous situation under the Paris Convention, see *supra* Part IV.4.

⁷⁸ UNCTAD/ICTSD, RESOURCE BOOK ON TRIPS AND DEVELOPMENT, Copyright chapter, 2.2.1 (quoting Chairman's report to the Group of Negotiation on Goods, document MTN.GNG/NG11/W/76, of 23 July 1990).

⁷⁹ *Id.*; see also WIPO study, *supra* note 9, at 65.

⁸⁰ See *infra* Part V.4.

⁸¹ See, e.g., Ruth Okediji, *Toward an International Fair Use Doctrine*, 39 COLUM. J. TRANSNAT'L L. 75, 113 (2000); David J. Brennan, *The Three-Step Frenzy – Why the TRIPS Panel Decision might be considered Per Incuriam*, 2 INTELL. PROP. Q. 212, 223 (2002); Kamiel J. Koelman, *Fixing the Three-Step Test*, 28 EUROPEAN INTELL. PROP. REV. 407 (2006); Geiger, *supra* note 38, at 683; Christophe Geiger, *Right to Copy v. Three-Step Test: The Future of the Private Copy Exception in the Digital Environment*, 6 COMPUTER L. REV. INT'L 7, 12 (2005).

2. *Provenance of the three-step test*

Article 9.2 Berne Convention, the provision which became the template for TRIPS as well as for corresponding provisions in the WCT and WPPT,⁸² reads as follows:

“It shall be a matter for legislation in the countries of the Union to permit the reproduction of such works in certain special cases, provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author.”⁸³

The insertion of the three-step test into the Berne Convention is of relatively recent date – it was only added, together with the reproduction right, at the Stockholm Revision Conference of 1967.⁸⁴ Before that, discussions at the Brussels Revision conference (1948) concerning the anchoring of the public performance right in the Berne Convention had led to the recognition of the so-called “minor reservations” doctrine, which is apostrophised by Senftleben as a precursor to the three-step test.⁸⁵ The background for this was that while Members could agree in principle about the right to public performance being granted to authors, they were wary about this possibly hindering the application of exceptions that were traditionally anchored in domestic law.⁸⁶ On the other hand, it also proved very difficult to promulgate an express catalogue of limitations and exceptions that members were entitled to keep or to introduce in their legislation. Instead, the possibility to retain “minor reservations” came to be acknowledged as a generally accepted practice.⁸⁷

However, the “way out” provided by the minor reservations doctrine proved to be insufficient when the reproduction right was to

⁸² WIPO Study *supra* note 9, at 65, remarks that the adoption of the three-step for limitations and exceptions under the TRIPS Agreement (and the subsequent copyright treaties) “has more been by accident than by design, in that it was immediately to hand as a ready-to-use formula at the time of the TRIPS negotiations, and, once this had happened, it was almost inevitable that it would be taken up as the general test in subsequent conventions.”

⁸³ Berne Convention, *supra* note 5, art. 9.

⁸⁴ For the history of Article 9.2, see RICKETSON & GINSBURG, *supra* note 2, at 759 (noting that the most influential in this regard was a report prepared by the Swedish BIRPI group of 1964 (“BIRPI” is the Bureaux Internationaux Réunis de la Propriété Intellectuelle, a sort of predecessor to WIPO, founded in 1967)).

⁸⁵ See SENFTLEBEN, *supra* note 7, at 45.

⁸⁶ *Id.*

⁸⁷ SENFTLEBEN, *supra* note 7, at 45–46. See also WIPO Study, *supra* note 9, at 34. See generally RICKETSON & GINSBURG, *supra* note 2, at 830–36; SILKE VON LEWINSKI, INTERNATIONAL COPYRIGHT LAW AND POLICY §§ 5.200-202 (2008).

be expressly incorporated into the Berne Convention. Reforming this problem was one of the major aims of the Stockholm Revision Conference. The growing potential for mechanical copying of texts as well as of sound recordings—early foreshadows of what finally developed into the digital revolution—was already perceived as a serious threat to copyright, and stemming the tide by implanting firm barriers in the international protection framework appeared crucial. On the other hand, it had also become obvious that members, to a varying degree, considered it necessary or desirable to reserve options allowing for copying under specific circumstances or for privileged educational or informational purposes.⁸⁸ It was felt that at least some of those exceptions might go beyond pure *de minimis* rules, as had been encompassed previously by the minor reservations doctrine. On the other hand, efforts to compile a list expressly indicating the most frequently used exceptions from the reproduction right, like, *inter alia*, private copying, did not bear fruit in the end, as it was feared that if it was not rigid enough to fulfil its purpose, it might lead to a serious erosion of the exclusive position of the author.⁸⁹ In the end, partly due to the strong and active involvement of the German chairman of Committee 1, Eugen Ulmer, Members consented on a general-clause like proposal which, after some re-drafting, was cast in the present form of Article 9.2.⁹⁰

3. *The three-step test as embedded in TRIPS*

a) *The wording of the provisions compared with each other*

The wording of the provisions modelled on the three-step test in the different sections of Part II TRIPS differs to a varying degree from each other and from the “original.”⁹¹

Article 13, which pertains to copyright, stipulates,

“Members shall confine limitations or exceptions to exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unrea-

⁸⁸ In the report by the Swedish BIRPI study group, see *supra* note 84, the limitations most frequently found in Member States’ copyright laws with regard to reproduction had been compiled. The list is reproduced in RICKETSON & GINSBURG, *supra* note 2, at 759 n.6.

⁸⁹ RICKETSON & GINSBURG, *supra* note 2, at 761 (quoting Swedish BIRPI study group, *supra* note 84, at 49 n.24).

⁹⁰ Berne Convention, *supra* note 5, art. 9.2.

⁹¹ Differences also exist with regard to the heading of each of these provisions: *Limitations and Exceptions* (Article 13), *Exceptions* (Article 17), *Protection* (Article 26), *Exceptions to Rights Conferred* (Article 30).

*sonably prejudice the legitimate interests of the right holder.*⁹²

Article 17, which pertains to trademarks, reads,

*“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.”*⁹³

Article 26.2, which pertains to industrial designs, declares,

*Members may provide limited exceptions to the protection of industrial designs, provided that such exceptions do not unreasonably conflict with the normal exploitation of protected industrial designs and do not unreasonably prejudice the legitimate interests of the owner of the protected design, taking account of the legitimate interests of third parties.*⁹⁴

And finally, Article 30, which pertains to patents, sets out that,

*“Members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.”*⁹⁵

Article 17 bears the smallest resemblance with Article 9.2 RBC as well as with the other “variations” of the three-step test in TRIPS. This is owed to the fact that notwithstanding their recognition as a full-fledged IP right, the protection conferred to trademarks is nevertheless primarily determined by their function of indicating commercial origin. With trademarks being a communication tool *par excellence*, the right of third parties to use the sign in order to engage in basically correct commercial communication must be respected, even though to do so might cause some prejudice to the value possibly vested in the mark.

No such particularities exist regarding the other IP rights.⁹⁶ Nevertheless, different wording has been chosen for the provisions em-

⁹² TRIPS, *supra* note 1, art. 13.

⁹³ TRIPS, *supra* note 1, art. 17.

⁹⁴ TRIPS, *supra* note 1, art. 26.

⁹⁵ TRIPS, *supra* note 1, art. 30.

⁹⁶ Roughly speaking, from an economic point of view, the owner of a patent, industrial design or copyright is assigned an exclusive market position as a basis for recouping investments made in the invention or creation, thus preventing market failure leading to underinvestment in innovation and creative activities. In the

bedding the three-step test in copyright, industrial design and patent law: whereas Article 13 echoes Article 9.2 by referring to “certain special cases”, and by omitting any mention of the “interest of third parties”, both Arts. 26.2 and 30 refer to “limited exceptions” with regard to the first step, refer to an “unreasonable” conflict occurring in the second step, and include third parties’ interests in the third step.

As it was pointed out by the WTO Panel in the *Canada – Patents* report, the drafting history does not offer an explanation as to why these differences occurred and whether they were intended to have any specific meaning.⁹⁷ As the wording of Article 13 was largely pre-determined by Article 9.2 RBC with its background in the continental European copyright tradition permeating the Berne system, the question would be whether the patent and industrial design provisions were deliberately phrased so as to allow for a less rigid interpretation. Although an argument could be made in favor of that reading, it has so far not been taken up in the debates, and was also not endorsed (nor expressly rejected) in the WTO report.

Finally, it shall be noted that a minuscule difference also exists between Article 26.2 (industrial designs) and Article 30 (patents): whereas the latter refers to conflicts with “a” normal exploitation of the right, the design provision is concerned with “the” normal exploitation.

b) The TRIPS provisions compared with Article 9.2 Berne Convention

Article 13 of TRIPS bears the closest resemblance with Article 9.2 of the Berne Convention.⁹⁸ Nevertheless, differences do exist that have a conspicuous bearing on the breadth of the provision. First, whereas Article 9.2 is formulated as an entitlement for Member States (“It shall be a matter for (national) legislation. . .”), Article 13 applies a different perspective, in that it emphasizes the constraints for Members’ legislatures when permitting for exceptions or limitations (“Members shall confine. . .”). More importantly, while Article 9.2 only concerns the reproduction right, article 13 applies to all rights conferred under copyright.⁹⁹ Furthermore, Article 9.2, in line with the

case of copyright, continental European thinking also emphasizes the aspect of protecting the author’s personal rights.

⁹⁷ The negotiating records show only that the term ‘limited exceptions’ was employed very early in the drafting process, well before the decision to adopt a text modeled on Article 9.2, but do not indicate why it was retained in the later draft texts modelled on Berne Article 9.2. See Berne Convention, *supra* note 5, art. 9.2.

⁹⁸ TRIPS, *supra* note 1, art. 13; Berne Convention, *supra* note 5, art. 9.2.

⁹⁹ According to the European system, this does not include the so-called related rights, i.e. the rights of performing artists, phonogram producers (and broadcast-

objective and spirit underlying the Berne Convention, deals with protection of the interests of the *author*, i.e., according to traditional European thinking, the personal creator of a work. By contrast, Article 13 refers to the interests of the right holder, i.e. to all those who have acquired a right, be it by creation or transfer.

Whereas the reformulation of Article 9.2 in the framework of Article 13 appears explicable in light of the wider ambit Article 13 is intended to cover, it is unclear whether the differences to be found in the wording of Article 9.2 on the one hand and Articles 17, 26.2 and 30 on the other is indicative of a deliberate and substantial deviation from the former in its capacity as serving as the historic basis for understanding the three-step test. Judging from the WTO Panel reports, the general opinion rather seems to hold that while meriting attention, the differences in the formulations should not be overestimated. On the contrary, the tendency seems to prevail that by way of “horizontal reading”, the requirements set out in the different wordings are held to inform each other, thereby reinforcing the restrictive tendencies inherent in each of them.

4. *The three-step test in the panel reports*

a) *General remarks*

Until now, the three-step test has been addressed in three panel reports. These concerned patents (*Canada – Patents*),¹⁰⁰ copyright (*USA – Copyright*),¹⁰¹ and trademark law in relation to protection of geographical indications (*EU – GIs*).¹⁰² Industrial design law has not been involved in Dispute Settlement proceedings so far, but

ers). Article 14, the provision on related rights, does not contain its own three-step test either. TRIPS, *supra* note 1, art. 14. However, the gap has been filled by article 16.2 of the Performances and Phonograms Treaty. WIPO Performances and Phonograms Treaty, Dec. 20, 1996, S. Treaty Doc. No. 105-17, 36 I.L.M. 76 [hereinafter WPPT] available at http://www.wipo.int/treaties/en/ip/wppt/trtdocs_wo034.html. Note that article 10 imports the three-step test into the WCT – which is of practical importance for the making available-right – and emphasizes that the provision has to be applied with regard to all rights set out in the Berne Convention, i.e. not only the reproduction right. WCT, *supra* note 68, art. 10.

¹⁰⁰ Panel Report, *Canada – Patent Protection of Pharmaceutical Products*, WT/DS114/R (Mar. 17, 2000) [hereinafter Patent Panel Report].

¹⁰¹ Panel Report, *United States – Section 110(5) of the US Copyright Act*, WT/DS160/R (June 15, 2000) [hereinafter Copyright Panel Report].

¹⁰² Panel Report, *European Communities – Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs*, WT/DS174/R (Mar. 15, 2005) [hereinafter Trademark Panel Report].

the issue has become topical in the European discussion concerning the so-called repairs clause for spare parts.¹⁰³

The issues treated in the panel reports are only briefly summarized here; having been the object of world-wide attention, it is supposed they are familiar to most readers. *Canada – Patents* concerned two exceptions in Canadian patent law that allowed medication to be manufactured by competitors before the lapse of the patent covering them. The first exception (called Bolar or regulatory exception) allowed making the samples needed for market permission, and delivering them to a competent agency; according to the second (stockpiling exception) it was permitted even to make larger quantities of still protected medicaments in order to keep them in store for the time when the patent has lapsed. The first type of exception was found acceptable by the panel, whereas the second was considered incompatible with TRIPS Article 30. In *USA – Copyright*, the panel examined the so-called homestyle and business exceptions set out in Sec. 110 (5) (A) and (B) copyright act. The first of these permits amplifying broadcast transmissions in commercial establishments provided that the equipment used does not go beyond a certain (“homestyle”) capacity.¹⁰⁴ The second makes the exception dependent on the size of the establishment concerned. Again, the panel accepted the first and condemned the second type of exception. Finally, in *EU – GIs*, the primary concern was the compatibility of the requirements posed for protection of geographical indications relating to third countries under the EU GI protection regime with TRIPS, in particular the national treatment principle. In the same context, the question had also been posed whether the fact that a prior trademark must coexist with a subsequently protected GI

¹⁰³ Faced with the problem that if design rights are granted for parts of complex products, the maker of the original product will automatically obtain a monopoly on the repair market, the Commission has proposed to introduce a rule permitting the manufacture and sale of parts for repair purposes, to the extent this is necessary to restore the original appearance of the complex product. See *Committee on Legal Affairs, Working Document on the Proposal for a Directive of the European Parliament and of the Council Amending Directive 98/71/EC on the Legal Protection of Designs* COM (2004) 582 final (Apr. 7, 2005), available at http://www.europarl.europa.eu/meetdocs/2004_2009/documents/dt/562/562518/562518en.pdf. This proposal was criticized for violating TRIPS Article 26(2). See Joseph Straus, *Design Protection for Spare Parts Gone in Europe? Proposed Changes to the EC Directive: The Commission’s Mandate and its Doubtful Execution*, 27 EUR. INTEL. PROP. REV. 391, 397 (2005). But see Annette Kur, *Limiting IP Protection for Competition Policy Reasons*, in HANDBOOK ON INTELLECTUAL PROPERTY AND COMPETITION LAW 313, 336 (2008) (refuting Straus’ argument that the proposal violated TRIPS).

¹⁰⁴ Strangely enough, the panel seems to have (mis)understood the “homestyle” provisions so as to only apply to broadcasting of “big” musical works such as operas, musicals etc. See *infra* V.4.b(i).

instead of being entitled to claim an exclusive right was violating Article 16 TRIPS. With regard to the latter question, the panel found that in this specific case, and under the precautions set out in the EU GI Regulation, coexistence constituted an acceptable solution in the light of Article 17 and the special kind of three-step test it embraces.

The panel reports are extremely lengthy, and even in edited form,¹⁰⁵ they make for tough reading. As it is plain to see for everyone who has grappled with them, the impressive volume of the reports is not at all indicative of the richness of the legal argumentation contained therein. On the contrary – it is amazing how little substance can be filtered out of so many words and how repetitive the reasoning tends to be. It must be duly noted in this context that the panellists—who are not themselves writing the report anyway—cannot be blamed for the redundancy of the text. With Dispute Settlement proceedings being a matter of high political sensitivity, it must be made sure that every statement made in the process by any Member be duly noted and commented upon, whether or not it makes a meaningful contribution to the issue as such.

For a better understanding of the argumentation employed in the three reports, it is helpful to embark on a comparative analysis, as was provided *inter alia* by Senftleben¹⁰⁶ and by Dreier.¹⁰⁷ The most interesting insights result from a comparison between the patent and the copyright panel report, which show clear signs of close relationship and mutual influence. Accordingly, those reports will be in the centre of the following considerations. By contrast, the comparability of the trademark panel's reasoning is somewhat reduced, due to the way in which the specific character of trademark law has influenced the wording of Article 17. The trademark report will therefore only be addressed where there is also common interest with regard to the other legal areas.

¹⁰⁵ See, e.g., INTERNATIONAL INTELLECTUAL PROPERTY LAW & POLICY, 364, 462, 570, 800 (G. Dinwoodie, W. Hennessey, S. Perlmutter & G. Austin eds., 3d ed. 2008) (addressing the EU – Gis, Canada – Patents, and U.S. – Copyright cases in turn).

¹⁰⁶ See generally Martin Senftleben, *Towards a Horizontal Standard for Limiting Intellectual Property Rights? - WTO Panel Reports Shed Light on the Three-Step Test in Copyright Law and Related Tests in Patent and Trademark Law*, 37 INT'L R. INTEL. PROP. & COPYRIGHT 407 (2006).

¹⁰⁷ See generally Thomas Dreier, *Interpreting International IP Law—Some Observations Regarding WTO Dispute Resolution*, in Festschrift für Kolle und Stauder [Writings in Honour of Kolle and Stauder] 45–62 (Annette Kur, et al. eds., 2005).

b) *The main lines of argument in the panel reports*

(i) *General structure and first step*

As a general starting point, all three panels emphasize that the test actually does consist of three (in trademark law: two) clearly discernible stages, which must be passed through cumulatively and in a strict order, with the criteria applied on each stage being specific in their meaning and separate from each other, to avoid redundancy.¹⁰⁸ All panels relate to the Vienna Convention on Law of Treaties (VCLT) as the basis for their interpretation.¹⁰⁹

With regard to the first step, all three reports emphasize that in order to comply with it, the limitation at stake must be “narrow”. For the patent panel, this resolves from the double qualification of a “limited exception” – as an exception is already something that is necessarily narrower than the right, the additional reference to “limited” must mean that it can only be referencing a “small diminution” of the right.¹¹⁰ The same interpretation was embraced by the trademark panel. The copyright panel marked in its interpretation that the term “certain” related to legal certainty, whereas “special” was supposed to mean narrow in a qualitative as well as a quantitative sense, i.e. that it must have “a narrow scope as well as an exceptional or distinctive objective.”

For copyright law, the panel’s interpretation of the word “certain” has triggered an animated debate about the compatibility of the fair use clause in Section 107 of the U.S. Copyright Act with the three-step test. Although doubts in that regard have been ventured, the majority opinion seems to hold that “fair use” after all does grant the nec-

¹⁰⁸ See, e.g., Copyright Panel Report, *supra* note 101, ¶ 6.97 (“The three conditions apply on a cumulative basis, each being a separate and independent requirement that must be satisfied.”); Patent Panel Report, *supra* note 100, ¶ 7.21 (“each of the three (steps) must be presumed to mean something different from the other two, or else there would be redundancy. . . an exception that complies with the first condition can nevertheless violate the second or third, and that one which complies with the first and second can still violate the third.”).

¹⁰⁹ VCLT, *supra* note 44, art. 31, 32. Not all WTO members have adhered to the VCLT. However, its application appears justified according to Article 3(2) of the Understanding on Rules and Procedures Governing the Settlement of Disputes, the provisions (inter alia) of TRIPS are to be clarified “in accordance with customary rules of interpretation of public international law”, Understanding on Rules and Procedures Governing the Settlement of Disputes, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, Legal Instruments—Results of the Uruguay Round, 33 I.L.M. 1125 (1994) [hereinafter DSU]; WIPO Study, *supra* note 9, at 5; see also Comment, Neil Netanel, 37 VA. J. INT’L L. 441, 449 (1997).

¹¹⁰ Contrary to that, Canada had argued that “limited” was intended to mean “confined within definite limits” Patent Panel Report, *supra* note 100, ¶ 4.14.

essary degree of legal security. The main arguments were already briefly reviewed above.¹¹¹ In addition to that, it has been pointed out that the signatories of TRIPS (and already those of the Berne Convention, when Article 9.2 was inserted) were aware of the legal approach taken in U.S. copyright, and deliberately aimed to draft a compromise between systems employing flexible clauses and those operating on the basis of closed catalogues. According to that argumentation, it would be a grave mistake if the compromised character of the three-step test were contorted by way of a rigid and formalistic interpretation.¹¹²

For the case before the copyright panel, the certainty requirement was not an issue anyhow, as it concerned a statutory provision that was precise enough. Both the copyright panel and the patent panel therefore concentrated on the issue whether the limitations were sufficiently narrow.¹¹³ As a result of their examination, both panels dismissed one of the exceptions as failing the conditions in the first step, while accepting the other. With regard to the Canadian stockpiling exemption, which failed the first step in patent law, the panel placed emphasis on the fact that during the last six months of patent protection, no quantitative restrictions existed as to the production of medicaments for stockpiling purposes, meaning that protection against the “making” and “using” of drugs embodying the patent were entirely removed.¹¹⁴ The copyright panel based its evaluation mainly on a survey undertaken in 1995 which showed that rather high percentages—65.2 of all eating and 71.8 per cent of all drinking establishments—were potential beneficiaries of the business exemption, while the respective figures for the homestyle exception were supposed to be much lower.¹¹⁵ The latter conclusion was reached on the basis of an interpretation by the panel, on which the parties concurred, that the homestyle exception in Section 110(5)(A) only applies to music that is part of an opera, operetta, or other similar dramatic work when performed in a dramatic content.¹¹⁶ Had it not been for that understanding, the provision would hardly have “survived” the test.¹¹⁷

¹¹¹ See *supra* Part III. 2.

¹¹² See SENFTLEBEN, *supra* note 7, at 135.

¹¹³ See, e.g., Copyright Panel Report, *supra* note 101, ¶¶ 6.104, 6.136, 6.144; Patent Panel Report, *supra* note 100, ¶¶ 4.14, 4.30, 7.28, 7.45.

¹¹⁴ Patent Panel Report, *supra* note 100, ¶ 7.34.

¹¹⁵ Copyright Panel Report, *supra* note 101, ¶ 6.118.

¹¹⁶ It seems that the interpretation suggested here is indeed what most Americans have assumed Sec. 110 (5) subparagraph (A) to mean before the panel report. See Copyright Panel Report, *supra* note 101, ¶ 6.98.

¹¹⁷ This conclusion was reached by using an e-contrario argument (based on the words “other than in subparagraph B,” 17 U.S.C. § 110(5) (2008)), placing subparagraph (A) in juxtaposition to subparagraph (B), which applies to the display of non-dramatic musical works. Although that understanding was not seriously chal-

As is remarked *inter alia* by Senftleben, all three panels decidedly avoided to embark on a discussion of normative elements, i.e. the *motives* on which the limitations are founded and their justification in the light of the objectives underlying the IP right concerned, and the objectives and principles of TRIPS.¹¹⁸ This abstinence is not necessarily induced by the wording of the relevant provisions. For example, the reference to “special cases” in Article 13, which, as the panel itself observes, addresses the “distinctive objective”, could very well furnish an inroad into consideration of normative aspects already at this stage. The reason for refraining from such an examination therefore seems to have been the attempt to keep the steps separate from each other, and to preserve the evaluation of policy aspects to a later stage. This point is strongly emphasized by Jane Ginsburg,¹¹⁹ who is supported in that regard by Sam Ricketson.¹²⁰

While the argument appears convincing from a systematic point of view, it becomes highly questionable if an exception is already “sorted out” on the first step, and therefore never reaches a stage where policy considerations are included in the assessment.¹²¹ This is indeed what happened regarding the stockpiling exception in *Canada – Patents*. Moreover, even if the provision under examination is submitted to all three steps—like the business exception in *USA – Copyright*—this does not help if the principle is endorsed (as both panels did) that failure to meet *any one* of the three steps will necessarily result in failure to pass the test in its entirety. For such an approach to work properly, it must be possible to identify an *absolute* quantita-

lenged by the parties, it is highly doubtful whether this is indeed the meaning the legislature intended to express in subparagraph (a). The legal history of the provision, whose origin is traced back to *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151 (1975), rather suggests that no such restriction had been intended. The difference between the two subparagraphs indicated by the phrase “other than . . .” can be explained quite naturally by the fact that the type of business mentioned in subparagraph B was supposed to be covered by the exemption irrespective of the type of equipment used; there is no cogent reason why it should also embrace the kind of music to be exempted.

¹¹⁸ See SENFTLEBEN, *supra* note 7, at 135.

¹¹⁹ See generally Jane Ginsburg, *Towards Supranational Copyright law? The WTO Panel; Decision and the Three Step Test for Copyright Exceptions*, REVUE INTERNATIONALE DU DROIT D'AUTEUR, (Jan. 2001) available in <http://ssrn.com/abstract=253867>.

¹²⁰ See generally WIPO Study, *supra* note 9, at 22; see also RICKETSON & GINSBURG, *supra* note 2, at 766 (where the opposite view previously endorsed by Ricketson is expressly given up).

¹²¹ Jane Ginsburg's argument that the exception will fail to be tested by the second and third steps in any event therefore is not necessarily correct, as the Patent Panel Report has shown. The same thoughts as here are also expressed in the Hugenholtz & Okediji, *supra* note 17, at 21.

tive limit beyond which exceptions and limitations will necessarily violate international law, without any regard had to the validity and urgency of their motivation. It is strongly doubted here that such an absolute limit does indeed exist. If at all, it would have to be defined with much caution, in order not to prematurely discard exceptions that may appear broad, but that are nevertheless founded on very sound and valuable grounds. Better than that, it ought to be acknowledged that in view of the task that the three-step has to fulfil, it is definitely inappropriate that a purely quantitative assessment should become the sole parameter for deciding on the admissibility of an exception. Rather than determining whether a rule is “limited” (or “special”) in an absolute sense, it should be inquired *how* it is limited, i.e. what its limitations are. The decisive question to be asked in the light of further elements to be investigated on the following steps would then be whether the exception is *limited enough* in view of its purpose and potential impact.

Drawing attention to this point appears noteworthy not least in view of the fact that in all three panel reports, the result reached on the basis of the assessment undertaken on the first step already anticipated the final conclusion of the report as a whole.¹²² At least in those cases, the first step seems to have been the essential test. It is uncertain whether this is a typical structure. If it were so, it might be taken as an indication that in spite of the emphasis placed on the cumulative character of the individual steps and their mutual independence, there is not much substance added on steps two or three – the dice may have been thrown before one gets there. If that is true, it is all the more important to ensure that policy considerations are not excluded from the deliberation.

(ii) *The second step*

The central task for the second step is to determine what accounts for a (conflict with the) “normal exploitation” of an IP right.¹²³ While the term seems to suggest a clear, matter-of-fact type of analysis, it turns out to be most problematic at closer scrutiny. It seems clear, first, that the legal situation in a country where the rule under examination currently applies cannot form the yardstick for what is considered as normal, lest the test should lead into circular reason-

¹²² See generally Patent Panel Report, *supra* note 100; Copyright Panel Report, *supra* note 101; Trademark Panel Report, *supra* note 102.

¹²³ See, e.g., Patent Panel Report, *supra* note 100, ¶¶ 7.51–7.59; Copyright Panel Report, *supra* note 101, ¶¶ 6.163–6.211; Trademark Panel Report, *supra* note 102, ¶¶ 7.649–7.650.

ing.¹²⁴ Instead, “normal exploitation” is a fictitious scenario, with no secure basis in actual law.¹²⁵ The WTO panels chose as their starting point the situation when full exclusivity is granted, minus insignificant detractors. For the patent panel, the normal practice of exploitation is to “exclude all forms of competition that could detract significantly from the economic returns anticipated from a patent’s grant of market exclusivity.”¹²⁶ The discussion became relevant in view of the argument made by Canada that it was not “normal” in that sense when patent holders enjoyed an additional period of de facto market exclusivity after the lapse of pharmaceutical patents.¹²⁷ However, the panel declared itself “unable to accept that as a categorical proposition.”¹²⁸ While market exclusivity resulting from the enforcement of the sole right to production during the entire patent term was considered to be “normal”, a different position was taken with regard to the making of samples for regulatory authorization. There, the panel argued, the additional period of market exclusivity is not a normal or natural consequence of enforcing patent rights, but “an unintended consequence of the conjunction of the patent laws with product regulatory laws.”¹²⁹

It would have been interesting to see how the panel, after having concluded its analysis as to what is regarded as normal exploitation, might have interpreted the second element in Article 30, i.e. that the conflict with a normal exploitation should not be “unreasonable.” At least as a matter of principle, this appears to leave room for the possibility that in spite of conflicting with a normal exploitation, a limitation still does make sense for general policy reasons – e.g. because it improves the supply of the population with useful medication. As it were, however, the panel did not find reason to embark on such an exercise – in case of the regulatory exemption there was no conflict

¹²⁴ RICKETSON & GINSBURG, *supra* note 2, at 769 (citing PAUL GOLDSTEIN, *INTERNATIONAL COPYRIGHT: PRINCIPLES, LAW AND PRACTICE* §5.5 (2001)).

¹²⁵ As a matter of principle, a comparison of the legal situation abroad might give some indication as to what is *grosso modo* regarded as “normal” in other countries. However, that kind of reasoning – which the patent panel employed in the framework of the third step – might also be dangerous, as it leads to a de facto canonisation of foreign practice leading to a “freeze-plus” dynamism, without those standards having been prescribed by an international instrument. *See infra* V.4.e. On the risks involved with a comparative approach in the three-step test *see also* Graeme B. Dinwoodie & Rochelle Cooper Dreyfuss, *International Intellectual Property Law and the Public Domain of Science*, 7 J. INT’L ECON. L. 431, 439 (2004).

¹²⁶ Patent Panel Report, *supra* note 100, ¶ 7.55.

¹²⁷ *Id.* ¶ 7.57.

¹²⁸ *Id.* ¶ 7.56.

¹²⁹ *Id.* ¶ 7.57.

with a normal exploitation to start with, and the stockpiling exemption (though indirectly addressed in the assessment of the “normalcy” of an additional exclusivity period resulting from enforcement of the production right) had been sorted out already on the first step.

In the copyright context, the issue of what may be a “reasonable” conflict with normal exploitation is moot anyhow, because Article 13 does not mention that criterion at all on the second step. The evaluation therefore turns exclusively on the definition of a normal exploitation.¹³⁰ As the copyright panel points out, “normal” in its ordinary meaning has two connotations, one being of an empirical and the other of a “somewhat more normative, if not dynamic” character. While the empirical approach basically consists in an evaluation of the current practice (in the relevant member state and abroad), the normative element shall ensure that limitations are not regarded as non-interfering with a normal exploitation simply for the reason that they concern an option for revenues which for factual reasons until now is not, or is only scarcely, used. In that regard, the panel’s concerns echo similar considerations as those which were already articulated in connection with the introduction of the three-step test in Article 9.2 of the Berne Convention at the Stockholm Revision Conference.¹³¹

Another issue of major importance in the copyright context concerns the question whether in order to measure the normal exploitation of “a work” one needs to take into account the options for deriving revenue from the bulk of rights attached to a work in its entirety, or whether each exclusive right conferred by copyright must be evaluated as such, without any difference between rights of major or minor importance in view of the exploitation possibilities in their entirety. The panel clearly opted for the second approach.¹³² In the panelists’ view, all exclusive rights must be considered separately, so as not to undermine any one of them on the basis that sufficient revenue may be flowing from exploitation of the remaining rights.¹³³

The combined approach chosen by the copyright panel—first, allocating all possible sources for revenue to the right holder, whether presently used or not; second, subjecting each and every exclusive position to a separate analysis, whether substantially contributing to the

¹³⁰ See, e.g., Copyright Panel Report, *supra* note 101, ¶¶ 6.163–6.211.

¹³¹ SENFTLEBEN, *supra* note 7, at 43.

¹³² Copyright Panel Report, *supra* note 101, ¶¶ 6.173–6.174. This is criticized in particular by SENFTLEBEN, *supra* note 7, at 189, 191 (arguing *inter alia* that the approach “tends to shelter small exclusive rights more effectively from erosion than smaller ones”).

¹³³ Copyright Panel Report, *supra* note 101, ¶ 6.173. As an additional motivation for their approach, the panel pointed to the fact that the individual rights conferred to the copyright owner need not necessarily be in the possession of the same person. *Id.*

entire arsenal of rights or not—leans very strongly to the side of proprietary interests.¹³⁴ On the basis of that analysis, it may be questionable whether there is any possibility left for a limitation *not* to be conflicting with a “normal exploitation”.¹³⁵

In anticipation of such misgivings, the copyright panel pointed out that,

not every use of a work, which in principle is covered by the scope of exclusive rights and involves commercial gain, necessarily conflicts with a normal exploitation of that work. If this were the case, *hardly any exception or limitation would pass the test of the second condition* and Article 13 might be left devoid of meaning, because normal exploitation would be equated with full use of exclusive rights.¹³⁶

Therefore, they propose to limit the decisive test on the second step to situations when the use covered by the limitation “enters into economic competition with the ways in which right holders normally extract economic value from (the specific right at stake) and thereby deprive them of significant or tangible commercial gains.”¹³⁷ Although confirming thereby that not every limitation will be outlawed *per se*, the concession thus made is rather poor in substance: it boils down to a hypothetical analysis of the economic loss sustained by the limitation as compared to a full exploitation of the right, i.e. to a test purely relying on financial arithmetic.¹³⁸ Accordingly, no room is left in the assessment undertaken in the second step for consideration of policy aspects.

Without criticizing the copyright panel for its reasoning, Ricketson, in his analysis of the second step in Article 9.2 of the Berne

¹³⁴ This has been criticized repeatedly in various literature, see e.g. Severine Dusollier, *L'encadrement des exceptions au droit d'auteur par le test des trois étapes* [The framework of the exceptions to copyright by the three-step test], I.R.D.I. 217, 220 (2005); see also SENFTLEBEN, *supra* note 7, at 181 (particular in regards to the new possibilities of restricting use and thereby engendering new markets in the digital environment); Thomas Heide, *The Berne Three-Step Test and the Proposed Copyright Directive*, 21 EUR. INTELL. PROP. REV. 105, 106.

¹³⁵ Due to the fact that unlike in the patent and industrial design tests, Article 13 does not require that the manner in which the use conflicts with a normal exploitation is “unreasonable” – according to the black letter, the finding of a conflict is sufficient to fall foul of the second step.

¹³⁶ Copyright Panel Report, *supra* note 101, ¶ 6.182 (emphasis added).

¹³⁷ *Id.* ¶ 6.182.

¹³⁸ One explanation for this may be found in the fact that the copyright panel obviously felt bound by the minor reservations doctrine applying in the framework of Article 11bis of the Berne Convention. See Berne Convention, *supra* note 5, art. 11bis.

Convention points out that it seems “logical to conclude that the scope of the inquiry undertaken required on the second step. . . does include consideration of non-economic considerations, i.e. whether this particular kind of use is one that the copyright owner *should* control.”¹³⁹ In other words, even though the three-step test in copyright does not make reference to a “reasonable” conflict with normal exploitation and therefore does not contain an explicit invitation to include policy considerations, it is nevertheless strongly advisable to embark on such an effort.¹⁴⁰ For patent law, of course, this should be mandatory anyhow – the total absence of any such discussion in the panel report due to the stockpiling exception’s dismissal already on the first step marks a serious loophole in the patent panel’s reasoning.

Apart from that, one might ask why an inquiry for normalcy must necessarily take its starting point in the scenario of a right holder fully exploiting what actual or potential markets may yield.¹⁴¹ For a comprehensive picture, it would be equally important to explore what would constitute the minimum level of market exclusivity necessary to prevent market failure. Anything lying between those two extremes might arguably be considered as a kind of “normal exploitation”. From this perspective, “normalcy” becomes a *relative notion* stretching over a range of *differentiated options*. Instead of pinpointing one specific result, it establishes the general framework for a gradual measurement to be undertaken in light of the strength and urgency of the legal motives underlying the rule at stake.

¹³⁹ WIPO Study, *supra* note 9, at 25; *see also* RICKETSON & GINSBURG, *supra* note 2, at 771.

¹⁴⁰ The normative interests possibly justifying a conflict with “normal interpretation” are further qualified by WIPO Study, *supra* note 9, at 26; RICKETSON & GINSBURG, *supra* note 2, at 773 (They would need “a clear public interest that goes beyond the purely individual interest of copyright users”, meaning that they “should be of analogous significance to those already accepted as appropriate under other provisions of the Berne Convention, such as article 10 and 10b.”) From the approach chosen here, such qualifications are unnecessary at this stage: Under the proportionality test to be evaluated at the end of this piece, *see infra* Parts V.6.a & V.6.b, it follows as a matter of course that “purely individual” interests of users will only be able to justify rather small encroachments.

¹⁴¹ Several proposals have been made in the literature for applying a different yardstick than full exploitation (minus insignificant reductions). SENFTLEBEN, *supra* note 7, at 194 (suggesting that a conflict with normal exploitation (only) arises “when authors are divested of an actual or potential, typical major source of revenue that carries weight within the overall commercialisation of works of the relevant category”); Dusollier argues that normal exploitation “only covers the main avenues of the exploitation of the work, those that provide the author with his main sources of revenue.” Dusollier, *supra* note 134, at 222.

(iii) The third step

If not before, several opportunities for a discussion of policy issues are offered on the third step.¹⁴² First, in all the areas concerned, it must be considered whether the prejudice eventually caused by the limitation is “unreasonable;” second, the interests associated with it must be considered as “legitimate,” and third, in patent, design and trademark law, the interests of “third parties” must be taken into account.

Of these potential inroads for policy considerations, the attention of the patent panel was practically exclusively focused on the “legitimacy” of the proprietors’ interests. It posed the question, first, whether “legitimate” interests were to be understood in the same way as “legal” interests, i.e. all aspects of the right conferred in principle by the legal title of a patent, and, if not, how the two notions were to be distinguished from each other.¹⁴³ Concerning the distinction between “legitimate” and “legal,” the panel emphasized that the former notion must be defined in the way it is often used in legal discourse – as a normative claim “calling for the protection of interests that are justifiable” in the sense that they are supported by the relevant policies or social norms.¹⁴⁴ The following example is offered as an illustration: The objective of patent law is to facilitate the dissemination and advancement of technical knowledge. Those goals are also furthered by scientific experimentation. Therefore, a rule allowing for experimental use would not be encroaching upon the legitimate interests of the patent holder – on the contrary, the panel concludes that both the scientist and society have a “legitimate interest” in keeping such uses free from the exclusive right.¹⁴⁵

Having followed the panel’s reasoning so far, one is interested to learn more about how that type of reasoning is applied to the regulatory exception which is at stake here. One possible line of argumentation might be that another objective for patent law, in particular in the area of pharmaceuticals, is to promote the invention of new drugs in order to optimize the public supply with useful medications. To en-

¹⁴² For that reason, Geiger has proposed to “reverse” the three-step test, see Christophe Geiger, *The Three-Step Test, a Threat to Balanced Copyright?* 37 INT’L R. INTELL. PROP. & COPYRIGHT 283 (2006); see, e.g., Geiger, *supra* note 81; SENFLEBEN, *supra* note 7, at 193 (pointing out that “the final decision on compliance can confidently be left to the three-step test,” which, not least because of the “possibility of factoring the payment of equitable remuneration into the equation. . . is better equipped for striking a better balance”).

¹⁴³ Patent Panel Report, *supra* note 100, ¶ 7.68.

¹⁴⁴ *Id.* ¶ 7.69.

¹⁴⁵ The panel thereby seems to suggest a kind of *de facto* obligation of Members to introduce a research exception.

able others to add to the available stock of market supply, at the earliest point in time after the absolute right has ceased, might, in light of that objective, also appear as a legitimate interest of (in this case) competitors and society. However, whether the panel at least in internal debate has used that sort of reasoning (which it had suggested itself by its example drawn from the research exception) remains unknown – if it did, it has at least not left visible traces in the report. Instead, the panel turns to the possible economic losses incurred by the patent holder due to the regulatory exemption, whose effects are not mitigated under Canadian law by complementary measures like, in the EU, the possibility to apply for a certificate extending the time of protection.¹⁴⁶ The case is finally closed after a comparative test – the panel is satisfied by the observation that while other countries do apply a regulatory exemption, not all of them provide for extensions of the kind available in the EU. This, they conclude, shows that interests of patent holders in abolishing the exception are not “legitimate” in the meaning of Article 30.¹⁴⁷ No other arguments are tested and none of the other elements of which the third step consists are addressed.

One might have rather expected the panel to say that although the interest of right-holders in a de facto-prolongation of the protection period may be legitimate as such, the Canadian government nevertheless did not act unreasonably when granting the Bolar-type of exception. As it is now, the argument is invited on the basis of the panel report that governments are (at least in a ‘moral’ sense) *obliged* to introduce such limitations, lest patent holders should derive “illegitimate” profits from the fact that generic manufacturers must wait until the expiry of the patent before initiating regulatory process.

Contrary to that, the copyright panel’s analysis was concentrated on the “unreasonableness” of the prejudice caused, as the legitimacy of interests had not been questioned by the parties.¹⁴⁸ First, the panel noted,

that the ordinary meaning of ‘prejudice’ connotes damage, harm, or injury. ‘Not unreasonable’ connotes a slightly stricter threshold than ‘reasonable.’ The latter term means ‘proportionate’, within the limits of reason, not greatly less or more than might be thought likely or

¹⁴⁶ Patent Panel Report, *supra* note 100, ¶ 7.31.

¹⁴⁷ *Id.* ¶ 7.49.

¹⁴⁸ As a matter of principle, the copyright panel followed the patent panel in its definition of what was to be considered as legitimate interests. It held that in addition to “lawfulness from a legal positivist perspective,” Copyright Panel Report, *supra* note 101, ¶ 6.224, the term also includes a more normative perspective, “calling for the protection of interests that are justifiable in the light of the objectives that underlie the protection of exclusive rights.” *Id.*

appropriate' or 'of a fair, average or considerable amount or size.'¹⁴⁹

With regard to the conflict at stake, the panel concludes that "legitimate interest" means the economic value of the exclusive rights conferred by copyright on the holders.¹⁵⁰ Taking into consideration that under the third step, "a certain amount of 'prejudice' has to be presumed justified as 'not unreasonable,'" they contend that in their view "prejudice to the legitimate interests of right holders reaches an unreasonable level if an exception or limitation causes or has the potential to cause an unreasonable loss of income to the copyright owner."¹⁵¹ This brings them back to the same kind of financial arithmetic they have already employed in the first and second step, and it leads to the same result as before: the prejudice caused by the business exception is unreasonable, whereas that caused by the homestyle exemption remains to be within acceptable limits. It is not discussed in that context that the homestyle exception obviously creates a particular prejudice for a specific type of music and for those who create and perform it, inviting the question whether and which legislative motives may possibly account for that. Rather than embarking on such ground, the copyright panel, just like the patent panel, does not address policy issues at all.¹⁵²

Some insights for interpretation of the third step are offered by the trademark panel, which in the first two steps shows little to compare with copyright and patent law, due to the different structure of Article 17 of TRIPS. For the definition of "legitimate interests", the trademark panel adopted literally the explanation given by the patent panel.¹⁵³ For an identification of the relevant interests in that sense, the panel placed particular emphasis on the function of trademarks to distinguish goods and services according to their commercial origin. It

¹⁴⁹ *Id.* ¶ 6.225. With all due respect, the finding regarding the difference between "not unreasonable" and "reasonable" seems to contradict the "ordinary meaning" test to be applied pursuant to Article 31 VCLT; "Not unreasonable" appears as the broader notion, comprising everything (just) above the threshold of what would have to be considered as "unreasonable".

¹⁵⁰ Copyright Panel Report, *supra* note 101, ¶ 6.271.

¹⁵¹ *Id.* ¶ 6.229.

¹⁵² See Graeme B. Dinwoodie & Rochelle C. Dreyfuss, *TRIPS and the Dynamics of Intellectual Property Lawmaking*, 36 CASE W. RES. J. INT'L L. 95, 95-122 (2004) (Providing an additional policy argument pointing out that the U.S. homestyle and business exceptions were part of the larger "package deal" introducing longer protection periods and thereby, in its entirety, strengthening the position of copyright holders.)

¹⁵³ Patent Panel Report, *supra* note 100, ¶ 7.663 ("normative claim calling for protection of interests that are 'justifiable' in the sense that they are supported by social policies or other social norms").

concluded that the basic legitimate interest of every trademark owner lies “in preserving the distinctiveness, or capacity to distinguish, of its trademark so that it can perform that function.”¹⁵⁴ That way, account would also be taken of the trademark holders interest “in the economic value of its mark arising from the reputation it enjoys and the quality it denotes.”¹⁵⁵ Furthermore, regarding the interests of third parties, the Panel referred to the interest of consumers “in being able to distinguish goods and services of one undertaking from those of another, and to avoid confusion.”¹⁵⁶ Hence, no diversity was found in that regard between trademark owners’ and consumers’ interests. Finally, the users of a geographical indication under the EU-GI system were said to be figuring as “third parties” whose interests must be taken into account in the framework of the balancing exercise.¹⁵⁷ In the case at hand, the coexistence between trademarks and subsequent geographical indications, which had been challenged as being incompatible with TRIPS, was found to be acceptable, in view of the fact that the rules were designed so as to reduce the risk for conflicts to a strict minimum, with the pertinent consequence that the actual number of conflicts was indeed extremely small.

The trademark report is interesting because it expanded, as the first and only report so far, on the meaning of “third parties”, whose interests must be taken into account for the assessment of the third step (except for copyright). As was set out above, the panel assumed that the notion included the interests of the users of protected geographical designations. This has been criticized by Senftleben as construing the term too broadly.¹⁵⁸ On the basis of the contention that “(t)hese persons are the very beneficiaries of the EC coexistence regime imposing certain limitations on prior trademark rights and accordingly, appear as the counterpart of trademark owners rather than third parties,” he concludes that the reference to third parties in Article 17 TRIPS, “apparently, refers to the concerns of those persons who could be affected detrimentally by the limitation in question, such as . . . consumers.”¹⁵⁹ However, the attitude of the Panel appears to comply with general legal parlance. “Third parties” usually connotes all those who, but for the existence of exceptions or limitations, would

¹⁵⁴ Trademark Panel Report, *supra* note 102, ¶ 7.644; SENFTLEBEN, *supra* note 7, at 431.

¹⁵⁵ Trademark Panel Report, *supra* note 102, ¶ 7.644.

¹⁵⁶ *Id.* ¶ 7.676.

¹⁵⁷ *Id.* ¶ 7.681.

¹⁵⁸ Martin Senftleben, *Towards a Horizontal Standard for Limiting Intellectual Property Rights? – WTO Panel Reports Shed Light on the Three-Step Test in Copyright Law and Related Tests in Patent and Trademark Law*, 37 INT’L REV. INTELL. PROP. & COMPETITION L. 407, 433 (2006).

¹⁵⁹ *Id.*

be excluded from making use of the subject matter protected by the right, in other words, those who are neither holders of the IP right nor stand in contractual relations with them. The same view was brought forward by Canada in the patents case, stating that “third parties” is a reference to those who are adverse in interest to the patent holder.¹⁶⁰ It is obvious that these persons will in many cases be exactly the same as those who directly benefit from the limitation.

c) Summarizing the panels' approach

Having studied the panel reports to some extent, one is tempted to say that the most remarkable thing about them is what one does *not* find there. In particular, with some exception to be made for the trademark report, nowhere do the panels venture into a discussion of the policies underlying the limitations at stake. This is especially noteworthy in the patent report – quite obviously, the Canadian legislature did have a distinct objective for inserting the regulatory as well as the stockpiling exception. However, even though the panel itself seems to invite a discussion of policies and objectives on the third step, it prefers not to embark such on a debate with regard to the regulatory exception, let alone the stockpiling exception, which, after having been judged as failing the first step, is never taken up for consideration again. But also in the copyright case, where both exceptions are submitted to testing on all three steps, the evaluation is remarkably silent on points of policy. One may wonder why, as the argument had in fact been advanced by the United States that the insertion of Section 110 (5)(A) and (B) was founded on considerations which, although not related to “cultural” values, at least were arguably sound.¹⁶¹ However, it seems that the panel rather leaned towards the opinion that the economic reasons accounting for the exceptions were not really “presentable” in the framework of the three-step test.¹⁶²

Whatever the reasons were for the relative paucity of the reasoning, the fact remains that the many pages of written text can be

¹⁶⁰ Patent Panel Report, *supra* note 100, ¶ 4.14.

¹⁶¹ See First Written Submission of the United States, *United States – Section 110(5) of the US Copyright Act*, ¶¶ 1, 73, WT/DS160 (Oct. 26, 1999).

¹⁶² See WIPO Study, *supra* note 9, at 24–25 (noting that with regard to the provision at stake, “there was no real need to consider [underlying policy aspects], as the ‘pork and barrel’ exception in issue had none of the significant justifications that often underlie copyright exceptions, such as free speech, scholarship, education and so on.”). However, this position fails to take account of the fact that in the end, also the interests of right holders to receive full revenues for whatever use is made of the protected subject matter is of an essentially economic (“pork and barrel”) character. Furthermore, the picture also changes when considering the larger legislative framework of which the homestyle exception formed part. Dinwoodie & Dreyfuss, *supra* note 152, at 122.

summarized quite briefly. First, what counts in the first and foremost place is how much the limitation detracts from a full right, both with regard to the individual elements of the rights conferred, and in terms of the potential revenues to be gained from full exploitation. These aspects, in particular the latter, are considered, embedded in varying wording but unchanged in their essence, on each and every one of the three steps. In spite of the rhetorical emphasis placed by the panels on the need for an interpretation that avoids redundancy, their argumentation *covers exactly the same aspect several times over*. The only additional clue, taken into account by the patent panel, was derived from a comparison with the legal situation abroad. This warrants the conclusion that exemptions of more than purely *de minimis* character stand a certain chance of being accepted only where it can be demonstrated that a similar rule also applies in a notable number of other countries. Contrary to that, new types of exemptions have the odds against them.

This somewhat simplified, but basically realistic record of the panels' interpretation of the three-step test raises a number of questions. Most conspicuously, the combination of the cautious approach taken by the panels on all three steps and the complementary comparison with foreign legislations resolves in the implementation of freeze-plus dynamics on the international level.¹⁶³ Either the general situation remains the same, or it evolves in the direction of expanded guarantees for right holders to secure full exploitation of their rights.¹⁶⁴ Movements in the other direction, in other words, the introduction or substantial reinforcement of limitations intended to improve access to protected subject matter, are faced with severe impediments or are even straightforwardly outlawed.

On the one hand, it might be said that this is nothing but the typical effect of international conventions based on minimum standards. On the other hand, this is an area where the exact meaning of the international norm has not been stamped out expressly, thus leaving a certain amount of discretion that must work both ways. To effectively hold that the standards presently employed by a sizeable number of WTO member states form a threshold which can only be deviated from in the direction of stronger protection fits badly with the aim to strike the optimal balance between diverging interests in a world of rapidly changing socio-economic conditions.

¹⁶³ For a critical view on the results possibly yielded by comparative analysis, see SENFTLEBEN, *supra* note 7, at 174.

¹⁶⁴ *Id.*

5. *A fresh approach to the three-step test: Opting for flexibility*

a) *Legal effect of the panel reports*

The analysis undertaken above has revealed several points of doubt concerning the WTO panels' approach towards the three-step test. It is therefore important to explore whether the legal effect of the panel decisions is such that it would indeed have a certain authoritative force.

Panel reports that are adopted by the Dispute Settlement Body become binding upon the parties of the dispute, who will then either have to comply with the result or be entitled to impose trade sanctions on the losing party, as the case may be.¹⁶⁵ Whether there is any legal effect beyond that appears to be doubtful.¹⁶⁶ Part of this is attributable to the fact that the character of the proceedings is also not quite clear. Whereas some features of the dispute settlement, by means of establishing a panel, are pointing in the direction of judicial proceedings, the fact that it only operates within the closed system of the WTO rather marks its resemblance with a specific type of arbitration system.¹⁶⁷ Irrespective of that question, it seems that it has never been argued that the *stare decisis* doctrine applies to the outcome of panel reports, in other words, a subsequent panel applying the test would in principle be free to develop its own way of reasoning.¹⁶⁸

On a different level, however, it might be asked whether an adopted report becomes binding in so far as it constitutes a "subsequent agreement" or a "subsequent practice" in the meaning of VCLT Article 31.3(a) and (b) respectively.¹⁶⁹ As a possible argument supporting the finding of a "subsequent agreement," one might refer to the fact that the Dispute Settlement Body needs to be discharged by the General Council, meaning that ultimately the decisions taken become accepted by all members.¹⁷⁰ However, such a wide interpretation would hardly be reconcilable with the fact that Article IX(2) reserves the exclusive authority to adopt interpretations of the WTO Treaty to

¹⁶⁵ DSU, *supra* note 109, art. 16(4) (stating that a panel report is adopted unless it is rejected by consensus).

¹⁶⁶ See Michael Lennard, *Navigating By the Stars: Interpreting the WTO Agreements*, 5 J. INT'L ECON. L. 17, 89 (2002).

¹⁶⁷ FESTSCHRIFT FÜR KOLLE UND STAUDER [WRITINGS IN HONOUR OF KOLLE AND STAUDER], *supra* note 107, at 45, 47.

¹⁶⁸ Lennard, *supra* note 166, at 33 (pointing towards the WTO's lack of a formal system of binding precedent" but also emphasizing that, in practical terms, "prior decisions are not lightly departed from."); see also Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations art. IX(2), Apr. 15, 1994, 33 I.L.M. 1125 (1994) [hereinafter Final Act].

¹⁶⁹ VCLT, *supra* note 44, arts. 31.3(a) & (b).

¹⁷⁰ DSU, *supra* note 109, art. IV.3.

the General Council and the Ministerial Conference, thereby requiring a three-fourths majority, whereas the threshold for adoption of panel reports is much lower – they can only be rejected by consensus.¹⁷¹ As a matter of principle, therefore, only agreements concluded through formal WTO procedures for reaching an agreed interpretation are qualifying for a subsequent agreement in the sense of the VCLT.¹⁷²

For similar reasons, there is also no point in contending that panel reports establish “subsequent practice.”¹⁷³ It is true that at least in one case, *Japan – Alcohol*, the panel held that “panel reports adopted by the GATT Contracting Parties and the WTO Dispute Settlement Body constitute subsequent practice in a specific case.”¹⁷⁴ However, that view was rejected in the same case by the Appellate Body.¹⁷⁵ Although this led to some discussion in the literature,¹⁷⁶ the Appellate Body’s position appears correct in view of the fact that “subsequent practice” in the meaning of Article 31(b) of the VCLT becomes binding because, and insofar as, it establishes a (tacit) agreement between the parties on the point of interpretation.¹⁷⁷ As was pointed out above, it cannot simply be submitted that WTO panel decisions fulfil the requirements for such an agreement. As Michael Lennard puts it, members may choose to agree, or not object to, a panel report because they see it as “an appropriate solution to a particular dispute, but without a recognition that [the panel’s ruling] should govern the interpretation on all the points addressed in future cases for all parties, without the possibility of a point being re-litigated and argued more fully.”¹⁷⁸

However, even when an “automatic” binding effect is denied, it is very well possible that panel reports furnish the basis for the development of subsequent practice in the Member States which, in the longer run, might indeed become binding in the sense that it reflects a common understanding as to what is the correct interpretation of a given provision.¹⁷⁹ The risk with this approach seems to be that it

¹⁷¹ Final Act, *supra* note 168, art. IX(2).

¹⁷² *See id.*

¹⁷³ VCLT, *supra* note 44, art. 31(b).

¹⁷⁴ Appellate Body Report, *Japan – Taxes on Alcoholic Beverages*, 12, WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R (Oct. 4, 1996).

¹⁷⁵ *Id.*

¹⁷⁶ Lennard, *supra* note 166, at 18 (citing James Cameron & Kevin R. Gray, *Principles of International Law in the WTO Dispute Settlement Body*, 50 INT’L & COMP. L.Q. 248, 252–53 (2001)).

¹⁷⁷ Lennard, *supra* note 166, at 33.

¹⁷⁸ *Id.* An even simpler explanation might be that Members choose not to object to a panel report simply because they consider this a futile effort in view of the unanimity requirement for rejection.

¹⁷⁹ *Id.* at 34.

tends to involve a self-endorsing dynamism: if the authoritative quality of a panel report is basically taken for granted in Member States' practice as well as in subsequent reports, this may, in the end, result in a consolidated practice which appears to reflect a common agreement, without alternative interpretations ever having been put to a test. It is *exactly for that reason* that it is crucially important to raise the general awareness concerning the possibility of taking a fresh approach instead of blindly reiterating what the panels have said.

b) Rulings by national courts

It is not possible in the present context to embark on a full investigation of the way the three-step test has been taken into account by national courts (if at all), and whether an impact has become visible of the restrictive tendencies tainting the panel reports. Only as examples, reference is made in the following to two decisions that seem to mark two fundamentally different approaches towards the three-step test.

The first of these decisions was handed down by the French Supreme Court, concerning the application of technical protection measures to a DVD.¹⁸⁰ Buyers were thereby prevented from making private copies, which is a legal form of use according to French copyright law. A claim for damages filed on the basis of Articles L.122-5 and L.211-3 of the French Intellectual Property Code by the French consumer association and a consumer was granted by the Paris Appeal court. The court found that, although private copying was an exception from copyright instead of a positive right granted to users, the possibility to benefit from that exception could not be restricted unilaterally without an express legal basis.¹⁸¹ However, the judgment was vacated upon appeal to the French Supreme Court (Cour de Cassation).¹⁸² It was held that the provisions in the Intellectual Property Code had to be interpreted in the light of the three-step test, as incorporated in the Directive Number 2001/29/EU on the Harmonisation of Certain Aspects of Copyright and Neighbouring Rights in the Information Society, and Article 9(2) of the Berne Convention.¹⁸³ In the brief manner which is typical for French decisions, the court laconically concluded that,

the private copy exception in Articles L.122-5 and L.211-3 of the Intellectual Property Code interpreted in the light of the said European Directive cannot be used to

¹⁸⁰ Cour de Cassation, *supra* note 39; see also Geiger, *Balanced Copyright*, *supra* note 142.

¹⁸¹ See Cour de Cassation, *supra* note 39.

¹⁸² *Id.*; see also Geiger, *Balanced Copyright*, *supra* note 142.

¹⁸³ See Cour de Cassation, *supra* note 39.

prohibit technical measures intended to prevent the making of copies being inserted on media reproducing a protected work if such copying would have the effect of conflicting with the normal exploitation of the work, which must be determined by taking into account the economic effect that such copying can have in the context of the digital environment.¹⁸⁴

The decision drew critical comments, not least because it seems to interfere with the prerogative granted to legislation in the constitutional system of continental European countries. It was feared that it would mark the inception of a line of jurisprudence which would use the three-step test as a trigger for supra-legislative screening of provisions potentially limiting the stream of economic benefits accruing to the right holder, even where explicit exceptions are set out in the law.¹⁸⁵

By contrast to that, it was demonstrated in a recent decision by the Barcelona Court of Appeals that the three-step test can be read in a totally different manner.¹⁸⁶ The case concerned the caching and proxy-caching of content by Google for running its search engines.¹⁸⁷ The right holder had argued that to allow such measures would run counter to the black-letter text of the law and that it would be incompatible with Article 40bis of the Intellectual Property Law – Collected Text (TRLPI), which contains a provision largely corresponding to the three-step test.¹⁸⁸ Against that, the court held that Article 40bis of the TRPLI, “. . . which originally intended to be a hermeneutic criterion for the interpretation of the statutory limits may allow that, by means of interpretation, we question the boundaries of these rights beyond literary provisions which regulate them, in positive and in negative terms, in this case the rights of reproduction and making available.”¹⁸⁹ And, in an even more revolutionary spirit, the court continues: “[o]ur interpretation of the scope of the intellectual property rights—which can

¹⁸⁴ *Id.*

¹⁸⁵ A certain tendency to assign a sort of “supra-legal” quality to the three-step test, making it binding for courts to observe the test even on top of express limitations set out in the law, might be visible in the fact that several (European) countries have chosen to incorporate the wording of Article 13 of TRIPS (or rather Directive 2001/29, *supra* note 7, art. 5(5)) into their copyright laws. “These states include the Czech Republic, France, Greece, Hungary, Italy, Luxembourg, Malta, Poland, Portugal and Slovakia,” Hugenholtz & Okediji, *supra* note 17, at 18.

¹⁸⁶ Audiencia Provincial de Barcelona, AC\2008\1773, Sept. 17, 2008, *available at* http://www.irpi.cciip.fr/upload/pdf/private/decisions/080917_Audencia_Barcelona_GoogleSpain.pdf.

¹⁸⁷ *Id.* at 2.

¹⁸⁸ *Id.*

¹⁸⁹ *Id.* at 7 (Quotation translation provided to author by R. Xalabarder).

never be configured as absolute rights—and their limitations should be guided by what in Anglosaxon regimes is known as the fair use doctrine.”¹⁹⁰ Last, it amounts to transposing the Real State doctrine for *ius usus inoqui* into IP, as “a natural limit of property right which operates on the whole when interpreting the scope of protection, in order to avoid absurd results.”¹⁹¹ Following that announcement, the court then proceeds to apply the four factors mentioned in Section 107 of the United States Copyright Act.¹⁹²

In the context of continental European law, the approach taken by the Barcelona Appeal court appears quite bold and, with a Supreme Court decision still lacking on the issue, it might not fully reflect the actual state of the law in Spain. Nevertheless, in its openness for a pro-active approach towards balancing of interests, the decision is to be welcomed. It certainly remains to be problematic also in this context that the court considers itself free to disregard certain restrictions that are set out in the written law. However, if such leeway should be accepted at all, the additional room for discretion thus allowed for judicial assessment must work both ways—also in the direction of granting more room for free use—instead of offering another tool for strengthening the position of right holders, as would follow from the one-sided approach endorsed by the French Supreme Court.

c) Revisiting the roots: Article 9.2 of the Berne Convention

As a background for the attempt to find a fresh approach towards the meaning and implications of the three-step test, it may be useful to revisit the circumstances under which Article 9.2 of the Berne Convention, the “mother of all three-step tests” came into existence, and to compare those circumstances with the pertinent conditions at the time of concluding the TRIPS agreement.¹⁹³ It was pointed out above that the decision taken at the Stockholm Conference to include the reproduction right into the Berne Convention, while allowing national legislatures to limit the right in “certain special cases”, was heavily tainted by the upcoming threat of mass-reproduction by photocopying and other, similar devices. In that situation, it was of vital importance to create a reliable international safeguard for authors, to ensure their sole right to authorize and prohibit any such acts, except for specific situations (primarily those which had been found acceptable in the various legal traditions), where an authorization by law would not substantially detract from their basic entitlement.

¹⁹⁰ *Id.* (Quotation translation provided to author by R. Xalabarder).

¹⁹¹ *Id.* (Quotation translation provided to author by R. Xalabarder).

¹⁹² *See id.* at 7–8.

¹⁹³ Berne Convention, *supra* note 5, art. 9.2.

While the fathers of Article 9 of the Revised Berne Convention (RBC) were certainly right in anticipating that the development of increasingly sophisticated tools for easy copying would pose a serious problem for the exclusive right of authors to their works, they could not possibly have imagined the dimension which reproduction in the larger sense has assumed only forty years later, with one single digital copy being able to allow the perception of protected content worldwide, and to become the source of, in theory, millions of other exact copies. However, they could likewise not be aware of the enormous importance which unimpeded communication and access to protected content would gain in the information society. And of course, the famous line coined by Charles Clark, “the answer to the machine is in the machine,”¹⁹⁴ could not possibly have rung in their heads – that it would be possible to bar access by technical protection measures, basically irrespective of the existence and extent of the protection granted under copyright, was inconceivable at the relevant time;¹⁹⁵ it even did not play a major role for the considerations in the Uruguay round when Article 9.2 of the RBC was accepted as the blueprint for Article 13 of TRIPS and the other provisions embedding similar clauses.¹⁹⁶

All those changes do not mean that Article 9.2 of the RBC as well as Article 13 and the other provisions in TRIPS agreement should not be interpreted in good faith according to their ordinary meaning, as is prescribed by Article 31 of the VCLT.¹⁹⁷ However, the above considerations do confirm that there is good reason today to explore the room for flexibility the provision may hold.¹⁹⁸

*d) Arguments derived from the TRIPS context*¹⁹⁹

(i) Intellectual property as a trade related matter: “Property logic” reversed

By restricting the possible range of limitations to “small diminutions” from a full exploitation of the IP right concerned, the panels implicitly chose to follow an approach which, in the allegory used in the beginning of this paper, treats limitations as “islands in a sea of

¹⁹⁴ PAUL GOLDSTEIN, *COPYRIGHT’S HIGHWAY: FROM GUTENBERG TO THE CELESTIAL JUKEBOX* 164, 170 (Stanford Univ. Press, rev. ed. 2003).

¹⁹⁵ See Alexander Peukert, *International Copyright Law and Proposals for Non-Voluntary Licenses Regarding P2P File Sharing*, in *INTELLECTUAL PROPERTY LAW: ARTICLES ON CROSSING BORDERS BETWEEN TRADITIONAL AND ACTUAL* 439, 453–54 (F. Willem Grosheide & Jan J. Brinkkhof eds., 2004).

¹⁹⁶ See Berne Convention, *supra* note 5, art. 9.2; TRIPS, *supra* note 1, art. 13.

¹⁹⁷ VCLT, *supra* note 44, art. 31.

¹⁹⁸ See SENFTLEBEN, *supra* note 7, at 194.

¹⁹⁹ See generally *INTELLECTUAL PROPERTY AND HUMAN RIGHTS* 161–94 (Paul L.C. Torremans ed., 2008).

exclusivity.” It was pointed out above that such an approach may indeed be called for in jurisdictions holding, for constitutional or other grounds, that in case of doubt, whenever a right has been established, property aspects must prevail over free access and use by others. However, that kind of “property logic” is far from universally valid; it only applies in systems that have opted for it. This is not the case within the WTO system; rather, the reverse logic does – or should – apply.

The fact that IP rights are expressly recognized as private rights in the Preamble to the TRIPS agreement does not warrant another finding.²⁰⁰ As private rights, IP rights are nevertheless subject to those limitations that are an expression of the proper role assigned to them by the objectives underlying the system within which they are operating. Concerning the TRIPS agreement, those objectives are spelled out in Article 7, where it is emphasized that IP rights are functional tools with regard to promotion of innovation and transfer of technology, as well as for the benefit of the public at large.²⁰¹ Accordingly, mandatory protection exacted by TRIPS must be organized so as to foster international trade relations instead of creating distortions that may result from inefficient protection. One main example for the latter is trade in counterfeit goods, but also other deficiencies may be counted here that would jeopardize countries’ investments in creation and innovation. In other words, the yardstick to be employed with regard to the minimum safeguards owed to IP rights in the framework of TRIPS is that of (international) *market failure*. From that perspective, it is neither necessary nor advisable to apply a property-biased approach. On the contrary, placing the accent on competition appears as a more appropriate way of honoring the particular, trade-related objectives which form the basis of the TRIPS agreement, as expressed in Article 7.²⁰²

The Preamble to the TRIPS agreement itself offers strong support for that proposition. First, reference is made therein to the aim of reducing “distortions and impediments to international trade”, it being added that IP should not itself become an impediment to international trade.²⁰³ Moreover, the connotation of intellectual rights as private

²⁰⁰ TRIPS, *supra* note 1, pmb1.

²⁰¹ *Id.* art. 7.

²⁰² *Id.* It would probably go too far, however, to derive from this the view that a general “reversal of proof” operates in favour of countries who want to make use of the flexibilities offered by the TRIPS objectives and principles. *Id.* arts. 7 & 8. See also, CORREA, *infra* note 235.

²⁰³ TRIPS, *supra* note 1, pmb1.

rights is complimented by reference to the policy objectives on which it is founded.²⁰⁴

(ii) *The Doha process and its impact on the interpretation of TRIPS norms*

The importance of interpreting the individual TRIPS agreement provisions in light not only of Article 7, but also of the principles embedded in Article 8, was raised beyond doubt in the framework of the Doha process. In order to soothe the concerns raised by the outcome of the Uruguay round in developing and threshold countries, the current round of trade negotiations strives to adopt more development-friendly policies. Those aims were set out in a Ministerial Declaration adopted at the Fourth Ministerial Conference at Doha, Qatar, in November 2001.²⁰⁵ In the section dealing with incumbent issues for the Doha round to address within the field of IP,²⁰⁶ it was stated that “[i]n undertaking these tasks, the TRIPS Council shall be guided by the objectives and principles set out in Articles 7 and 8 of the TRIPS Agreement and shall take fully into account the development dimension.”²⁰⁷

The Ministerial Conference also issued a separate “Declaration on the TRIPS Agreement and Public Health.”²⁰⁸ In the parts that are of foremost relevance for this topic, the declaration reads as follows:

²⁰⁴ *Id.* (“Recognizing the underlying public policy objectives of national systems for the protection of intellectual property, including developmental and technological objectives.” (emphasis added)). Another important qualification regarding the consideration given to IPR as private rights in the framework of TRIPS follows from the larger context of the WTO Agreement. See Henning Grosse Ruse – Khan, *A Comparative Analysis of Policy Space in the WTO*, 53, available on SSRN, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1309526. Inter alia, it is of specific note in this regard that the Preamble to the WTO Agreement, deliberately deviating from the prior GATT text, makes reference to the objective of “sustainable development.” Final Act, *supra* note 168, pmb1.

²⁰⁵ World Trade Organization, Ministerial Declaration of 14 Nov. 2001, WT/MIN(01)/DEC/1, 41 I.L.M. 746 (2002) [hereinafter Doha Declaration].

²⁰⁶ *Id.* ¶¶ 17–19 (Discussing the issues of geographical indications review of Article 27.3(b); review of the implementation of the TRIPS Agreement under Article 71.1; examination of the relationship between the TRIPS Agreement and the Convention on Biological Diversity; the protection of traditional knowledge and folklore; and other relevant new developments raised by members pursuant to Article 71.1).

²⁰⁷ *Id.* ¶ 19.

²⁰⁸ World Trade Organization, Declaration on the TRIPS Agreement and Public Health of 9–14 Nov. 2001, WT/MIN(01)/DEC/2, available at http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_trips_e.pdf [hereinafter Doha Declaration on TRIPS and Public Health].

4. We agree that the TRIPS Agreement does not and should not prevent members from taking measures to protect public health. Accordingly, while reiterating our commitment to the TRIPS Agreement, we affirm that the Agreement can and should be interpreted and implemented in a manner supportive of WTO members' right to protect public health and, in particular, to promote access to medicines for all.

In this connection, we reaffirm the right of WTO members to use, to the full, the provisions in the TRIPS Agreement, which provide flexibility for this purpose.

5. Accordingly and in the light of paragraph 4 above, while maintaining our commitments in the TRIPS Agreement, we recognize that these flexibilities include:

5(a). In applying the customary rules of interpretation of public international law, each provision of the TRIPS Agreement shall be read in the light of the object and purpose of the Agreement as expressed, in particular, *in its objectives and principles*.²⁰⁹

The effects ensuing from the Doha Declaration have been considered at length in the legal literature.²¹⁰ It has been pointed out²¹¹ that the paragraph is stated in the form of an agreement, and that "(s)ince this statement was adopted by consensus by the Ministers. . . this may be interpreted as a 'decision' of the members under Article IX.1 of the WTO Agreement,"²¹² which for all practical purposes comes very close to an "interpretation" in the meaning of Article IX.2. Furthermore, with a view to paragraph 5(a) invoking the customary rules of public international law, it is held that "[b]y particularizing reference to objectives and principles, the Declaration appears indirectly to reference Articles 7 and 8 and this may have the effect of elevating those provisions above the preamble of TRIPS for interpretative purposes."²¹³ The latter effect is considered as important, in view of the possibility that the preamble "might be understood to place a somewhat greater weight on the interests of intellectual property owners than on public interests."²¹⁴

²⁰⁹ *Id.* arts. 4–5(a).

²¹⁰ Ruse-Khan, *supra* note 204, at 44.

²¹¹ See UNCTAD-ICTSD, *supra* note 78, at 131.

²¹² *Id.*

²¹³ *Id.* at 132.

²¹⁴ *Id.* at 132 n.292. However, as was pointed out above, that statement must already be qualified in view of the objectives stated in the preamble, and also taking into account the larger WTO context.

Even more importantly for these considerations, it is pointed out by Daniel Gervais that after Articles 7 and 8 have been singled out as having a special importance in the Doha Ministerial Declaration, “[a]n argument could be made that these provisions now have higher legal status . . . in the context of, *e.g.*, dispute-settlement proceedings.”²¹⁵ Though the formal status of the provisions was not changed in the Doha process, “[t]he impact of the Doha Declaration . . . *could convince a panel to take a longer look* at how these provisions should be interpreted in the context of the Agreement as a whole.”²¹⁶

In brief, although the Doha Declaration has not given Member States *carte blanche* to set aside the obligations under the TRIPS agreement in order to promote the policy concerns mentioned in Article 8.1, it has unmistakably reaffirmed the freedom of Members to address health (and other) concerns in the framework of the flexibilities that the TRIPS agreement may offer.

(iii) *The proportionality principle as an inherent feature of the WTO system*

For a full evaluation of those flexibilities, and the manner in which they can be used, it needs to be remembered that TRIPS is but a part of the larger WTO system, whose rules are reflecting upon the overarching principles to be followed. Particular relevance in that regard must be attributed to Article XX of GATT, and the principles governing its application.²¹⁷ As is pointed out in more detail by Ruse-Khan, it is true that Article 8.1 of the TRIPS agreement was deliberately formulated to make a difference *vis-à-vis* Article XX of GATT.²¹⁸ Whereas the test embedded in the latter provision may even justify measures derogating from the obligations under the WTO Agreement, Article 8.1 of the TRIPS agreement has been ‘emasculated’ to ensure

²¹⁵ DANIEL GERVAIS, *THE TRIPS AGREEMENT: DRAFTING HISTORY AND ANALYSIS* 122 (Sweet & Maxwell 3d ed., 2003).

²¹⁶ DANIEL GERVAIS, *THE TRIPS AGREEMENT: DRAFTING HISTORY AND ANALYSIS* 211 (Sweet & Maxwell 3d ed., 2008); *see also* DANIEL GERVAIS, *THE TRIPS AGREEMENT: DRAFTING HISTORY AND ANALYSIS* 121 (Sweet & Maxwell 2d ed., 2003) (arguing that “this Article [Article 8] may serve as a basis for broader exceptions than the previous one [Article 7]”). This leaves unaffected the basic position that to take the principles and objectives into account may not lead to results that would amount to renegotiation of the agreement. This resolves from the second clause in paragraph four of the Doha Declaration, which only refers to the *present* flexibilities provided by TRIPS. *See* Doha Declaration, *supra* note 205, ¶4.

²¹⁷ General Agreement on Tariffs and Trade art. XX, Oct. 30, 1947, 61 Stat. A-11, 55 U.N.T.S. 194 [hereinafter GATT].

²¹⁸ Ruse-Khan, *supra* note 204, at 20.

that the mandatory character of the TRIPS agreement provisions remains unchallenged.²¹⁹

Nevertheless, the concept on which Article XX of GATT is founded and the way in which it has come to be interpreted in WTO disputes remain to be relevant where the TRIPS agreement leaves space for policy considerations. This is typically the case where provisions contain broad, “open” notions that must be filled and interpreted in the light of value-based judgments, such as e.g. terms like “unreasonable” or “legitimate.”²²⁰ In those instances, the balancing exercise undertaken in the framework of Article XX of GATT offers a model which is appropriate also for the TRIPS agreement context.²²¹

Under Article XX of GATT (and Article XIV of GATS)²²², the test regularly evolves in a two-tier fashion. First, it is asked whether the measure at stake is “necessary” in view of the policy objective it is intended to serve.²²³ If the first step can be cleared, it is further asked whether the measure constitutes an abuse, e.g. because it unduly discriminates between Members, or otherwise constitutes a disguised barrier to free trade.²²⁴ Both elements of the test essentially involve a weighing of different factors that are set in proportion to each other.²²⁵ As was pointed out by the Appellate Body in *Korea – Beef*, these factors regularly include: (a) the contribution made by the measure at stake to the legal goal aspired by the law or regulation at issue; (b) the importance of the common interest or values protected by that law or regulation; and (c) the ensuing impact of the law or regulation on the protected interests in free trade, i.e. on imports or exports.²²⁶ If a corresponding scheme is applied to the three-step test, this means that: (a) the appropriateness of the limitation for achieving its purpose; (b)

²¹⁹ *Id.* at 18 (citing Appellate Body Report, *United States – Import Prohibition of Certain Shrimp and Shrimp Product* WT/DS26/AB/R (Jan. 16, 1998) [hereinafter *Shrimp Appellate Report*]).

²²⁰ See Ruse-Khan, *supra* note 204, at 34–35, 44.

²²¹ GATT, *supra* note 217, art. XX.

²²² General Agreement on Trade in Services art. II, Apr. 15, 1994, 33 I.L.M. 1125 [hereinafter *GATS*].

²²³ GATT, *supra* note 217, art. XX. It is important to note in this context that “necessary” does not mean “indispensable,” but is interpreted with the aim to preserve Members’ freedom to achieve their own regulatory objectives. See Working Party on Domestic Regulation, Annual Report Of The Working Party On Domestic Regulation To The Council For Trade In Services, S/WPDR/W/27 (Nov. 26, 2004).

²²⁴ The second element of the test is informed by Article XX of the GATT. GATT, *supra* note 217, art. XX.

²²⁵ See Ruse-Khan, *supra* note 204, at 60.

²²⁶ Appellate Body Report, *Korea – Measures Affecting Imports of Fresh, Chilled and Frozen Beef* WT/DS161/AB/R ¶ 164 (Dec. 11, 2000) [hereinafter *Beef Appellate Report*].

the importance of the policy concerns pursued thereby; and (c) the impact it produces on the interests of right holders need to be weighed and balanced against each other. The more vital or important the societal value at issue, the easier the measure will be considered legitimate.²²⁷ Of course, it must be kept in mind that the TRIPS agreement provisions remain to be binding, so that limitations will in any case fall afoul of the test if they cross the “red line” of the minimum protection level guaranteed by the TRIPS agreement provisions. Furthermore, just like under Article XX of GATT, limitations are inadmissible if they constitute abuse in the light of general trade policy—by unduly discriminating between Member States.²²⁸

The need to interpret the three-step test in the light of proportionality considerations cannot be emphasized strongly enough.²²⁹ Only in this way will it be possible to respect Member States’ breathing space and the different conditions under which domestic IP systems are operating, while at the same time maintaining a sufficient level of minimum protection and legal security.

It hardly needs to be emphasized that the proportionality approach stands in stark contrast to the WTO panels’ narrow focus on the economic impact of the limitations, as measured in absolute terms. While the deficiencies of the panels’ reasoning are particularly obvious with regard to clearly value-based notions like “unreasonable” and “legitimate”, the impact of the different approach endorsed here goes even further than that. As was pointed out above, the essential criteria addressed on the first and second step (that exceptions must be of “limited extent” and must not be in conflict with “normal” exploitation) are of a *gradual* rather than of an absolute character – limitations and exceptions can be of a more or less limited content and impact, and normal exploitation of a right figures somewhere on a scale between full exclusivity and the grant of a market position which in spite of certain restrictions is sufficient to prevent market failure. Just like the reasonableness and legitimacy of measures taken, their normalcy and limited character *need to be measured in relation to the interests and policies pursued*, with the final test being to assess whether in view of the weight of those interests, the limitation is proportionate, i.e. *does not go further than what is needed to achieve the purpose*,

²²⁷ See Appellate Body Report, *European Communities – Measures Affecting Asbestos and Products Containing Asbestos* WT/DS135/AB/R ¶ 174 (Mar. 12, 2001) [hereinafter Asbestos Appellate Report].

²²⁸ See GATT, *supra* note 217, art. XX (The latter requirement echoes the abuse clause regularly considered under this article).

²²⁹ That a proportionality test should apply is also advocated strongly by Senftleben. SENFTLEBEN, *supra* note 7, at 226.

while respecting the demarcations identifying the absolute minimum protection guaranteed by TRIPS.

6. *Résumé and consequences: Guidelines for interpreting the three-step test(s) in TRIPS*

a) *The basic principles*

It follows from the above considerations that an interpretation of the three-step test must respect the following principles:

- First, it is incompatible with the specific context of the TRIPS agreement to apply a scheme of “property logic.” In other words, to consider IP as a self-sufficient aim that must be safeguarded to the fullest degree possible.
- Second, it is crucial to pay attention to the objects and principles of the TRIPS agreement whenever the admissibility of limitations is at stake.
- Third, and probably most importantly, the assessment must always involve a balancing effort based on the principle of proportionality. The gravity of limitations must be measured against the importance of the objectives on which they are founded.

b) *Reconstructing the scheme underlying the three-step test*

In the light of these principles, the structure of the three-step test needs to be re-evaluated. This concerns in particular the thesis endorsed by the WTO panels that all three steps are separate from each other and must be passed subsequently and cumulatively. Based on that structure, limitations may e.g. fail the first step for purely quantitative reasons, without any account being taken of the policy aspects on which they are founded.²³⁰ A “policy-blind” assessment like that would necessarily clash with the fundamental principles pointed out above.

As a matter of principle, such effects could be avoided by undertaking a comprehensive balancing exercise *within each one of the three steps*, thereby necessarily creating a high degree of redundancy. In order to avoid such effects, but nevertheless providing for a full and comprehensive evaluation, the interpretation must proceed from the understanding that *instead of constituting three separate units, the three steps are nothing but individual elements informing one overall assessment.*²³¹

In practice, this results in the following scheme:

²³⁰ See *supra* Part V.4.b(i).

²³¹ See Declaration, *A Balanced Interpretation of the “Three-Step Test” in Copyright Law*, 39 INT’L REV. INTELL. PROP. & COMPETITION L. 707 (2008).

- On the *first step*, the situations covered by the limitation are identified. How broad or narrow is the rule, and how much legal certainty does it provide?
- On the *second step*, the economic consequences are analyzed. In order to avoid a one-sided approach, the analysis should consider both extremes. To what extent the limitation restricts the fullest possible way of exploitation (taking account of actual as well as potential markets), but also whether it still leaves sufficient incentives for right holders (and the respective countries) to invest in innovative or creative activities, in other words, to prevent market failure on the national or international level.
- On the *third step*, the conflicting interests of the affected groups of right holders²³² and those of third parties as well as of the public are identified and evaluated in the light of the policies on which they are based. In order to secure a truly balanced form of protection in accordance with the prime objective of the TRIPS agreement, such an exercise is *mandatory in all fields of IP—including copyright*.
- Finally, deriving from the *proportionality principle* as an inherent feature of GATT/TRIPS, the general guideline commanding the overall assessment must be that a limitation is admissible where the same policy objective could not be achieved by lesser means (where a limitation is “limited enough” for its purpose, and does not restrict exploitation more than necessary),²³³ provided that it does not result in discrimination or otherwise entail unacceptable effects.

c) *A presumption in favour of “freedom”?*

Considering that the philosophy underlying TRIPS as a trade-related instrument is in favour of free competition rather than its restriction,²³⁴ it seems logical that the proponents of a limitation should be given the benefit of doubt, if the assessment undertaken on the ba-

²³² Other than what might be suggested by the wording of the three-step test, the interests of right holders are not always homogeneous and necessarily opposed to those of the users. For instance, in copyright it may occur in certain situations that the interests of authors (the personal creators), in an optimal dissemination of their works concur with the interests of users in getting access to those works, while they conflict with the interests of (derivative) right holders who want to secure their revenues by safeguarding exclusivity. In such situations, the interests of all parties involved have to be taken into account, instead of solely focusing on one group. See *id* (discussing these aspects of the three-step test in detail).

²³³ See Ruse-Khan, *supra* note 204, at 56–57.

²³⁴ See *supra* Part V.5.d(i).

sis of the three steps should lead to inconclusive results. It might even be asked whether a presumption should operate in favour of the legitimacy of limitations, unless a clear preponderance of the evidence is brought against it. Similar to this, the argument has been made in a different context that at least when a legal rule is based on the principles expressly mentioned in Article 8, it should be presumed admissible unless it is established to the conviction of a WTO panel that the provision falls foul of legal obligations resulting from TRIPS Part II.²³⁵ However, to postulate such a presumption appears to reverse the meaning usually attributed to the wording of provisions construed like Article 8. By stipulating that the objectives mentioned therein may be pursued, “provided that” this does not conflict with other parts of the convention, the burden to establish compatibility with those other norms is regularly placed on the party raising the argument as a defence.

The same line of reasoning would apply to the suggestion made with regard to a presumption in favour of limitations. However, as was pointed out in the beginning of this paper,²³⁶ the procedural aspect of where to place the burden of pleading and adducing evidence needs to be distinguished from the spirit in which the assessment of legal issues is undertaken. With regard to that latter aspect, the wording of Article 8 does not appear to constitute an obstacle against a competition-friendly interpretation of the three-step test.

7. *Other (copyright) conventions – Will the problems persist outside TRIPS?*

a) *Background*

Reconsidering the structure and meaning of the three-step test in the framework of TRIPS may not necessarily resolve the problems accruing in other instruments embedding the same or similar provisions. Until now, the issue only concerns copyright and related rights: the Berne Convention contains the three-step test in its original form alongside with its forerunner, the minor reservations doctrine, and other explicit limitations. Those provisions are also firmly linked with TRIPS, as the Berne *aquis* has become an integral part of that convention by virtue of Article 9.1. In addition, the three-step test was incorporated in the two post-TRIPS instruments, WCT and WPPT.

The following lines do not undertake to examine the complex relations between those instruments in their entirety,²³⁷ but are only concentrated on the question whether the interpretation proposed

²³⁵ See CARLOS CORREA, TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS 200 (2007) (regarding measures allegedly violating Article 20 TRIPS).

²³⁶ See *supra* Part II.3.

²³⁷ See WIPO Study, *supra* note 9, at 46.

above can be applied to the three-step test where it appears in other instruments, or whether a stricter interpretation would be warranted in such cases.

b) *The Berne Convention*

(i) *Article 9.2*

In its capacity of being part of the Berne Convention, Article 9.2 RBC is not subject to the above interpretation insofar as arguments were derived from the specific objectives and context of TRIPS. A different view might apply, however, to the extent that Article 9.2 has been incorporated into TRIPS. The difference might be relevant not least in view of the fact that only in its latter capacity will the provision possibly come into the focus of WTO panel proceedings.

The position that the examination of Article 9.2 RBC in the framework of WTO Dispute Settlement proceedings should be confined to trade related aspects might be supported by the argument that moral rights—which do form part of the test in Article 9.2 RBC—can hardly be taken into account by a panel. On the other hand, that consequence follows from the explicit reservation made with regard to moral rights in Article 9(1) TRIPS, whereas to ignore other possible implications of Article 9.2 RBC in favour of a strictly trade-oriented approach does not find support anywhere in TRIPS. It follows logically that the incorporation of Article 9.2 RBC into TRIPS has not influenced the ambit of that provision other than by excluding moral rights aspects from consideration for purposes of dispute settlement. It is therefore correctly pointed out by Senftleben that it would be misguided to reason that after inclusion of the three-step test in TRIPS, limitations and exceptions could be accepted that go beyond what was formerly considered admissible under the Berne Convention.²³⁸ Pursuant to Article 20 RBC, which has become part of TRIPS by virtue of Article 9.1, agreements concluded between Members may only deviate from the rules anchored in the Convention to the extent that they grant a more favourable position to authors.²³⁹ That being said, it is nevertheless unlikely that an independent analysis of Article 9.2 RBC would lead to conspicuously different results than what has been argued before with regard to TRIPS.

It needs to be considered, first, that if the TRIPS context is removed as a basis for interpreting Article 9.2 RBC, there is even less reason to conclude that the ordinary meaning of the word “special” in the *first step* of the test is a synonym with “narrow,” denoting a “small

²³⁸ SENFTLEBEN, *supra* note 7, at 88–89; see also GERVAIS, *supra* note 215, at 237.

²³⁹ SENFTLEBEN, *supra* note 7, at 88 (stating that it would not be a tenable argument to claim that it therefore does not apply to the rules embodied in multilateral agreements such as TRIPS).

diminution” instead of “having a specific purpose” or “precise.”²⁴⁰ It was only by referencing the patent panels’ exegesis of the term “limited exception” that the copyright panel arrived at its conclusion.²⁴¹ In this context, it is interesting to note what Ricketson has suggested as the meaning of “certain special cases” in his pre-TRIPS commentary to the Berne Convention (1886-1986): “First, the use in question must be for a *quite specific* purpose” (emphasis added).²⁴² Also, the argument that the analysis of the *second step* is incomplete unless normative considerations are taken into account is derived from legal thinking independent of TRIPS.²⁴³ Finally, to the extent that certain interests are privileged on the *third step*, this only applies to *authors* and is not to be applied in favour of right holders in general. Accordingly, where the personal interests of authors would benefit from a limitation—typically because it contributes to the dissemination of their works, and/or they are entitled to fair remuneration in exchange—the fact that losses might be sustained by derivative right holders would obviously not be able to jeopardize its admissibility.

(ii) *Article 11bis and the minor reservations doctrine*

In pre-Stockholm days, Berne members’ ability to introduce limitations had only been subject to the minor reservations doctrine. The existence of that *de minimis* threshold had been expressly acknowledged in the course of the Brussels Revision Conference, where it became topical in regard to the right to public performance.²⁴⁴

It is generally accepted that the minor reservations doctrine has not become obsolete by adoption of the three-step test in TRIPS. As emphasized by the panel in *USA – Copyright*, nothing in the TRIPS negotiations suggests that members wanted to refrain from incorporating that specific part of the Berne *aquis*.²⁴⁵ The issue was of some relevance for the case at stake, which concerned an aspect of the broadcasting right that did not appear to be covered by the specific exceptions mentioned in Article 11bis RBC. Confirming the applicability of the minor reservations doctrine in principle, the panel then em-

²⁴⁰ Copyright Panel Report, *supra* note 101, ¶ 6.109.

²⁴¹ *Id.* ¶¶ 6.227–6.228.

²⁴² SAM RICKETSON, *THE BERNE CONVENTION FOR THE PROTECTION OF LITERARY AND ARTISTIC WORKS 1886–1986* 482 (Longman, 1989) (stating that “a broad kind of limitation would not be justified. Secondly, there must be something ‘special’ about this purpose; ‘special’ here meaning that it is justified by some clear reason of public policy or some other exceptional circumstance” as he has later-on given up his position and agrees with the position taken by Jane Ginsburg that a normative assessment has no place on the first step.) (*See infra* Part V.4.b(i)).

²⁴³ WIPO Study, *supra* note 9, at 25.

²⁴⁴ *See supra* Parts V.2; Copyright Panel Report, *supra* note 101, ¶¶ 6.42–6.70.

²⁴⁵ Copyright Panel Report, *supra* note 101, ¶¶ 6.68–6.70.

ployed the three-step test as a way to clarify its meaning for the case concerned;²⁴⁶ it treated Article 13 as a concretisation of the older doctrine.

The reasoning provided a way out of the problem that Article 11bis RBC, although allowing for a quite severe reduction of the right to control public performance in certain cases, does so only under the condition that fair remuneration is paid (and moral rights are respected).²⁴⁷ As the United States provision in question did not foresee anything like that, the only way to reconcile it with Article 11bis was to invoke the minor reservations doctrine. By aligning the reach of the older doctrine with that of the three-step test, the panel avoided a discussion of the consequences ensuing from the possibility that Article 13 basically might allow for more than just *de minimis* exceptions.²⁴⁸ Before this backdrop, the reluctance of the copyright panel to accept anything but the most insignificant detraction from a full exploitation becomes more explicable. Unfortunately, however, by the panel's reaction to the specific constellation in the case at hand, the minor reservations doctrine was effectively enthroned as the ultimate yardstick governing the three-step test in all areas of copyright.

Some reason for this might even be found in the fact that in the framework of the Berne Convention, the minor reservation, although only having been articulated with respect to the public performance (and, to some extent, the translation) right,²⁴⁹ apparently constituted a sort of general default rule in case that no express limitations were set out in the Convention. Considering that the Berne *aquis* forms a minimum standard that remains to be binding for subsequent conventions (including TRIPS),²⁵⁰ it would be logical to assume that even if it had been the original purpose of the three-step test to function as an enabling clause providing for more space to tailor exceptions and limitations, this would not have been possible, as Article 20 RBC only permits more extensive protection being granted. Consequently, it would mean that the minor reservations doctrine remains to be binding at least for rights that had already been granted under the Berne system. However, a more relaxed view is apparently taken by Sam Ricketson, when he declares that the copyright panel erred in considering itself bound by the minor reservations doctrine, arguing that the latter only

²⁴⁶ *Id.* ¶ 6.69.

²⁴⁷ *Id.* ¶ 6.83.

²⁴⁸ REINBOTHE & LEWINKI, *supra* note 10, at 131.

²⁴⁹ In the materials for the Brussels conference, examples for the application are also given regarding the translation right. No indication can be found in the material that the application of the doctrine should be confined to those two fields.

²⁵⁰ SENFTLEBEN, *supra* note 7, at 88 (arguing that the three-step test in TRIPS is a genuine Berne-plus element as Article 20 has become part of TRIPS by virtue of Article 9(1)).

represents a subset of what may be admissible under the three-step test.²⁵¹

Debates on the relevance of the minor reservations doctrine regularly suffer from the fact that it is unclear what its scope and contents actually are.²⁵² It seems to be clear, however, that with regard to the public performance right, the room for maneuver under the three-step test for introducing limitations *without remuneration* is indeed rather narrow. However, to conclude that every interpretation of the three-step test must necessarily adopt the same kind of *de minimis* approach would be overstating the possible effects of the minor reservations doctrine. Even in its core area of application—public performances—and much more so in other areas of copyright, its contours were and are so vague that it cannot possibly furnish a distinct basis for interpreting, and possibly limiting, the ambit of the three-step test at large.²⁵³ In the documents for the Brussels Revision Conference, where the only explicit discussion of the minor reservations doctrine can be found, a number of examples are cited of admissible forms of public performance in various legislations. It is not suggested in any manner that the list of examples should be exclusive, let alone that it should also be regarded as furnishing mandatory guidelines to be observed in other potential fields of application.²⁵⁴ The only conclusion to be derived from these considerations is that the minor reservations doctrine is an open-ended tool providing for some degree of flexibility, without thereby leaving IP rights at the disposal of domestic legislatures. Based on that reasoning, it follows that the doctrine as such cannot be considered as forming an institutional bar against a flexible interpretation of the three-step test. In particular, no such restrictions are warranted in cases when (by contrast to what has been the case in USA – Copyright), right holders are offered fair remuneration in order to compensate for permitted uses.

c) WCT and WPPT

The two WIPO treaties concluded in 1996 on the protection of copyright,²⁵⁵ and the protection of performing artists and phonogram producers,²⁵⁶ were motivated by the desire to establish a common in-

²⁵¹ WIPO Study, *supra* note 9, at 54.

²⁵² RICKETSON & GINSBURG, *supra* note 2, at 833.

²⁵³ As was remarked by M. Plaisant as the Rapporteur-Général for the Brussels revision Conference, the only area besides public performances that seemed to play a role at that time was the translation right. WIPO, Standing Committee on Copyright and Related Rights, SCCR/9/7 (Apr. 5, 2003).

²⁵⁴ RICKETSON, *supra* note 242, at 536; *see also* RICKETSON & GINSBURG, *supra* note 2, at 835.

²⁵⁵ WCT, *supra* note 68.

²⁵⁶ WPPT, *supra* note 99.

ternational basis for addressing the challenges posed by the digital environment. They are therefore rather technology-driven than being trade-oriented, like TRIPS. As is documented by the amazingly brief period between the point in time when the “digital agenda” was first tabled (September 1995) and the adoption of the treaties in December 1996, the proceedings evolved in unusual haste. Being under the perception that the new technological developments provided an existential threat to the rights of authors and other right holders, a strong urge was felt to react quickly, in spite of warnings that to do so might be premature.²⁵⁷ In line with its history, the spirit underlying the treaties is unmistakably assertive. Nevertheless, the need for a dynamic and flexible reading of the treaty also in respect of the limitations and exceptions is accentuated by the Agreed Statement to Article 10 WCT,²⁵⁸ where it is stipulated that “the provisions of Article 10 permit Contracting Parties to carry forward and appropriately extend into the digital environment limitations and exceptions. . . which have been considered legitimate under the Berne Convention (and). . . to devise new limitations and exceptions that are appropriate in the digital network environment”. It is true that the clause remains closely linked to the spirit and confines of the Berne Convention and therefore cannot be understood as giving carte blanche to the introduction of novel and potentially far-reaching limitations.²⁵⁹ Nevertheless, it signals a certain openness, which is further underlined by the fifth resp. fourth recital in the preamble of the WCT and WPPT, where reference is made (similar to TRIPS) to the “need to maintain a balance between the rights of authors (resp. performers and producers of phonograms) and the larger public interest, particularly education, research and access to information”.²⁶⁰ Hence, as was argued above with regard to Article 13 TRIPS, the interpretation of the three-step test in both trea-

²⁵⁷ REINBOTHE & LEWINSKI, *supra* note 10, at 6–7.

²⁵⁸ WCT, *supra* note 68, art. 4.

²⁵⁹ REINBOTHE & LEWINSKI, *supra* note 10, at 132 (arguing that the three-step test, when applied under Article 10(2) “does not by itself invite, or even create, *new limitations and exceptions*” (emphasis in the original); it is “a scrutiny test, but no enabling clause”).

²⁶⁰ WCT, *supra* note 68, at 2 (stating that in the Preamble, the sentence continues “as reflected in the Berne Convention”); *see also* REINBOTHE & LEWINSKI, *supra* note 10, at 22 (the reference was inserted in order to soothe concerns regarding the fact that “access to information” might be understood in an overly broad manner: by referencing the Berne Convention, it should be clarified that “access to information” already is one of the justifications for limitations mentioned there, and should be understood accordingly).

ties cannot be *policy-blind*, but must include a comprehensive balancing of the various interests involved.²⁶¹

This conclusion remains unaffected by the fact that, as emphasized in the literature, the terms “rights” and “interests” were explicitly chosen in the WCT preamble so as to clearly mark a difference in the legal status of right holders as compared to the general public.²⁶² Even if it should have been the intention with that wording to imbue the balancing exercise with a certain prejudice in favour of right holders,²⁶³ this would influence the interpretation of the three-step test only in so far as it has found expression in the actual wording.²⁶⁴ However, in an ordinary understanding, the juxtaposition of “rights” and “interests” does not convey the message that the latter are generally inferior to the former. The use of different terms rather serves to denote the “technical” fact that the former are specifically regulated, while the latter notion is broader than that.

One might further ask whether the reinforcement by the Doha Declaration of the general objectives underlying IP right protection on the international level must impact the WIPO treaties as well, given the fact that all member countries adhering to those treaties are at the same time also members of the WTO. On the other hand, to simply assume that the Doha Declaration should be valid outside the institutional framework in which it was formulated would hardly appear a tenable position. Even without that additional foundation, however, the interpretation suggested above remains the same to the extent it was motivated by doubts concerning the consistency and internal logic of the WTO-panels’ reasoning.

²⁶¹ SENTFLEBEN, *supra* note 7, at 98 (emphasizing the importance of the WCT preamble for an appropriate interpretation of the three-step test in the digital environment).

²⁶² REINBOTHE & LEWINSKI, *supra* note 10, at 22 (stating that the original proposal made by India during the Diplomatic Conference to make reference to ensuring ‘a balance between the interest of authors and the larger public’ was accepted only under the condition that that the word ‘interests’ (of authors) was replaced by the word ‘rights’ in order state the difference between the status of authors and the general public); *see also id.* at 24 (where the authors point out that the distinction made between rights (authors) and interests (the public at large) “reflects the relationship between them, ie the relationship of ‘rule and exceptions’”).

²⁶³ REINBOTHE & LEWINSKI, *supra* note 10, at 22 (stating that another attempt to reduce the potential impact of the fifth preamble on the interpretation of the WCT was further made by inserting recital four, which emphasizes the “outstanding significance of copyright protection as an incentive for literary and artistic creation).

²⁶⁴ VCLT, *supra* note 44, art. 31; *see* Lennard, *supra* note 166, at 21 (“[W]hat is being sought is essentially. . .the ‘expressed intent’ rather than the ‘subjective intent’ of the parties”).

Whether a more restrictive interpretation of the two WIPO treaties is nevertheless warranted in view of their specific aims and context, is very difficult to ascertain. As the two treaties do not form an element of the WTO system and will therefore not be considered in panel proceedings, the topic will probably never be raised before an international body, and hence it may become moot in practice.

VI. CONCLUDING REMARKS

With the texture of international IP protection becoming increasingly dense, it appears natural and necessary that more attention is focused on limitations and exceptions. The major part of the interest is commanded by the three-step test, in particular Article 13 TRIPS, but initiatives are also forming which address the issue from a different angle, by exploring the topic at large, like in the studies by Ricketson and Hugenholtz & Okediji, and also by insisting that limitations and exceptions, possibly in the form of mandatory rules,²⁶⁵ should be on the international agenda, e.g. in the framework of WIPO.

In the publications and initiatives dealing with the three-step test, the critical voices prevail.²⁶⁶ Like in this paper, the panels' reasoning is frequently considered dissatisfactory and one-sided. The misgivings are augmented by the fact that the test has been included into national and regional instruments. What is meant as an alert to courts and legislatures to the fact that international norms must be respected, could easily turn out to entail adverse effects if it is misunderstood so as to disallow anything but the smallest inroad into a right holder's exclusive market position. It should be the foremost aim of scientific studies undertaken in that field to prevent such understandings.

Going one step further, the Declaration on the Three Step Test, which was elaborated in the framework of a project conducted jointly by the Max-Planck-Institute and Queen Mary College, offers concrete guidelines for a balanced interpretation of the three-step test.²⁶⁷ In accordance with what was pointed out in this paper, the Declaration emphasizes that the test must be considered as an *indivisible entirety*, meaning that the individual steps are not cumulative in the sense that each one must be passed separately, but that all of them need to be comprised in an overall evaluation. Apart from that, the Declaration,

²⁶⁵ Annette Kur & Henning Grosse Ruse-Khan, *Enough is Enough – The Notion of Binding Ceilings in International Intellectual Property Protection* (Max Planck Inst. for Intellectual Prop., Competition & Tax Law Research Paper Series No. 09-01), available at <http://ssrn.com/abstract=1326429> (discussing mandatory rules and proposals presently pending in that regard).

²⁶⁶ See *supra* note 81.

²⁶⁷ Declaration, *supra* note 231.

rather than giving a positive interpretation, points out in which way the individual criteria should *not* be understood.

The approach endorsed here complies with the Declaration in most or all aspects. However, it reaches beyond that initiative in several regards. First, whereas the Declaration is only concerned with copyright, the present endeavor undertakes to identify a general scheme underlying the three-step test in all areas of IP alike. Second, instead of pointing out how the three-step test should not be interpreted, a *positive approach* is undertaken, in order to show how the interpretation should proceed. A basis for that, still following closely the structure and wording of the three-step test, was laid out above.²⁶⁸

²⁶⁸ International Association for the Advancement of Teaching and Research in Intellectual Property, Agreement on Trade-Related Aspects on Intellectual Property Rights, Synopsis of Original Version and Proposals for Amendment (2006), <http://www.atrip.org/upload/files/activities/Parma2006/Kur%20synopsis.pdf>; see also International Association for the Advancement of Teaching and Research in Intellectual Property, TRIPS Amendments (2006), <http://www.atrip.org/upload/files/activities/Parma2006/Kur%20AMENDMENT.pdf>.