

***CHINA –MEASURES AFFECTING THE PROTECTION AND  
ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS***

***(WT/DS362)***

**FIRST SUBMISSION OF  
THE UNITED STATES OF AMERICA**

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## I. INTRODUCTION

1. The conclusion of the *Agreement on the Trade-Related Aspects of Intellectual Property Rights* (the “TRIPS Agreement”) represented an important step forward in the international work on intellectual property rights (“IPR”) protection. As the agreement’s preamble makes clear, WTO Members took account of the need to promote effective and adequate protection of these rights. They also recognized the need for new rules and disciplines concerning, *inter alia*, “the provision of effective and appropriate means for the enforcement of trade-related intellectual property rights, taking into account differences in national legal systems.”

2. The importance of providing effective and appropriate means to enforce intellectual property rights is self-evident. As any police officer or judge can testify, effective enforcement tools are critical to a legal regime. An effort to provide effective and adequate traffic safety would be fruitless without a full set of enforcement tools, including speeding tickets, the authority to suspend or rescind driving privileges, individuals’ rights to redress of their injuries, and the authority to prosecute and send serious offenders to jail. The inability to draw on this set of enforcement mechanisms would leave traffic in chaos and drivers, passengers and pedestrians in grave jeopardy.

3. Part III of the TRIPS Agreement implements the consensus that the Uruguay Round negotiators reached concerning the importance of providing effective enforcement tools to combat international intellectual property theft. Part III outlines a set of rules and disciplines Members must have in place to allow them to enforce trade-related intellectual property rights efficiently and thoroughly. These rules and disciplines include general obligations, civil and administrative procedures and remedies, provisional measures, special requirements related to border measures, and criminal procedures and penalties. Article 41, which opens Part III, underscores that Members must “ensure enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement.”

4. The United States recognizes that China undertook major revisions to its laws to create a modern IPR system in its effort to meet TRIPS Agreement standards before and after its WTO accession in 2001. At the same time, the United States considers that China’s efforts have fallen short in certain specific enforcement areas covered in Part III of the TRIPS Agreement. The claims before this Panel concern three such specific areas: (1) China’s criminal laws maintain safe harbors that allow commercial-scale counterfeiting and piracy without the possibility of criminal prosecution or conviction for those acts; (2) China has failed to give Chinese Customs officers the required authority for disposing of counterfeit and pirated imports; and (3) China denies automatic and immediate copyright protection to certain works, including those that have not yet cleared China’s content review process. China’s efforts in these three areas have been insufficient for the following reasons.

5. *First*, the TRIPS Agreement requires Members’ laws to provide for criminal procedures and penalties against willful commercial-scale piracy and counterfeiting. Yet China’s laws establish safe harbors for intellectual property thieves by prohibiting criminal prosecution or conviction of commercial-scale piracy and counterfeiting unless a case meets specific quantitative or value thresholds set out in China’s laws. These thresholds give counterfeiters and pirates a clear roadmap for how to operate without fear of criminal sanctions for commercial-scale IPR infringement.

6. For example, as long as the pirates and counterfeiters ensure that the police never find 500 or more copies of pirated copyright goods or finished counterfeit trademarked goods valued at more than approximately \$6,900 in a raid, they can be certain that they will never be subject to criminal prosecution for IPR infringement. Indeed, the pirates and counterfeiters in China know this is how the system works, and they have set up their operations so as to take advantage of the safe harbors created by China’s laws. In a case study included with this submission, less than 20% of retail establishments selling copyright-infringing music CDs or DVDs met the lowest relevant threshold. Pirates and counterfeiters can and do structure their commercial operations to ensure that they are operating within the safe harbor created by China’s thresholds.

7. In this submission, the United States will show that China’s laws prevent criminal prosecution and conviction of this and other activities that fall within any possible meaning of “commercial scale.”

8. *Second*, the TRIPS Agreement recognizes the desirability of being able to dispose of copyright- and trademark-infringing imports in a manner that avoids harm to the right holder, recognizing the harm already caused by the infringers’ activities. It therefore requires Members to give their Customs officials the authority to destroy infringing imports or to dispose of them outside the channels of commerce in a manner that avoids harm to the affected right holder. In addition, when counterfeit trademark goods are seized, even when the infringing mark is removed, the TRIPS Agreement requires Customs officials to have the authority to keep these goods from returning to the channels of commerce, other than in exceptional circumstances.

9. These disciplines are very important. Returning infringing products to the marketplace could create safety or quality problems, confuse the consumer, and harm the reputation of the legitimate product. Moreover, for counterfeit products, even if the mark itself has been removed, the TRIPS Agreement recognizes that goods thus modified can still pose problems if allowed to reach the market. For example, it can be fairly simple to retrofit these products with the infringing marks.

10. Yet China’s Customs law turns the TRIPS Agreement requirements on their head by directing Customs authorities to permit certain infringing goods to enter the channels of commerce, or to take other steps that cause rather than avoid harm to the affected right holder.

11. *Third*, the TRIPS Agreement requires copyright protection to be available as soon as a work is created. Any delay in enforceability of this right opens the door to IPR theft. However, China's laws do not provide automatic and immediate copyright protection to movies, music, books, journals, and the like, whenever such works are prohibited from publication or distribution in China. For example, copyright protection is not provided for a work awaiting Chinese government approval following content review, or for a work that does not receive this approval. Similarly, where a work has to be modified to meet Chinese censorship requirements, leaving the original work unapproved, there is no copyright protection for the original work. Moreover, where a work is not being marketed in China – and, thus, no censorship approval has been sought – the work also will have no copyright protection in China. The failure to afford copyright protection to works allows pirates to exploit these unprotected works in China (and perhaps even to increase sales, based on the works' pre-release status or uncensored condition) free of any fears of copyright enforcement.

12. China's decision to limit the scope of its enforcement measures, despite the requirements of Part III of the TRIPS Agreement, is not simply troubling as a matter of WTO principle. Reports from around the world regularly document the rampant IPR infringement that takes place in China.

13. The three deficiencies in China's IPR legal system being challenged in this dispute significantly contribute to this enormous problem and need to be remedied. The United States has engaged on these matters with China on an intensive basis over the past several years, but no resolution has emerged up to this point. In the absence of a mutually agreed solution, the United States has turned to the WTO dispute settlement system to seek a resolution to its concerns. The remainder of this submission provides the details of the U.S. claims.

## **II. PROCEDURAL BACKGROUND**

14. On April 10, 2007 the United States requested consultations with the Government of the People’s Republic of China pursuant to Articles 1 and 4 of the *Understanding on Rules and Procedures Governing the Settlement of Disputes* (“DSU”) and Article 64 of the TRIPS Agreement with respect to certain measures pertaining to the protection and enforcement of intellectual property rights in China. That request was circulated to WTO Members on April 16, 2007 (WT/DS/362/1).

15. The EC, Japan, Canada, and Mexico each notified the United States and China of their desire to be joined in the consultations, pursuant to Article 4.11 of the DSU. China accepted these requests (WT/DS362/6).

16. The United States and China held consultations on July 7-8, 2007. These consultations provided helpful clarification, but failed to resolve the dispute.

17. On August 13, 2007, the United States requested the establishment of a panel pursuant to Article 6.2 of the DSU (WT/DS362/7). The Dispute Settlement Body (“DSB”) considered this request at its meeting on August 31, 2007, at which time China objected to the establishment of a panel. On September 25, 2007, the United States renewed its request for the establishment of a panel. The DSB established the panel on September 25, 2007.

18. The Panel was constituted on December 13, 2007 (WT/DS/362/8).

## **III. FACTUAL BACKGROUND**

### **A. A Note on the Chinese Legal System**

19. Before describing the three sets of measures at issue in this dispute, it is important to provide a brief background note on relevant features of the Chinese legal system.

20. During its WTO accession negotiations, China explained the sources and hierarchy of Chinese law to the Working Party on the Accession of China (the “Working Party”):<sup>1</sup>

The representative of China informed members of the Working Party that in accordance with the Constitution and the Law on Legislation of the People’s Republic of China, the National People’s Congress was the highest organ of state power. Its permanent body was its Standing Committee. The National People’s Congress and its Standing Committee exercised the legislative power of the State.

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<sup>1</sup> See *Report of the Working Party on the Accession of China*, WT/MIN(01)/3, circulated 10 November 2001, para. 66 (hereinafter “Working Party Report”) (Exhibit US-17).

They had the power to formulate the Constitution and laws. The State Council, i.e., the Central People’s Government of China, was the executive body of the highest organ of state power. The State Council, in accordance with the Constitution and relevant laws, was entrusted with the power to formulate administrative regulations. The ministries, commissions and other competent departments (collectively referred to as “departments”) of the State Council could issue departmental rules within the jurisdiction of their respective departments and in accordance with the laws and administrative regulations. The provincial people’s congresses and their standing committees could adopt local regulations. The provincial governments had the power to make local government rules. The National People’s Congress and its Standing Committee had the power to annul the administrative regulations that contradicted the Constitution and laws as well as the local regulations that contradicted the Constitution, laws and administrative regulations. The State Council had the power to annul departmental rules and local government rules that were inconsistent with the Constitution, laws or administrative regulations.

21. As China made clear to the Working Party, the National People’s Congress (NPC) is the highest organ of state power. The NPC and its permanent body, the Standing Committee, exercise the legislative power of the State, which includes the power to formulate China’s laws.

22. With respect to the judiciary, the Supreme People’s Court (“SPC”) is China’s highest judicial body.<sup>2</sup> The SPC’s functions include hearing appeals, supervising the work of local courts, and giving judicial interpretations of the specific utilization of laws.<sup>3</sup> The Supreme People’s Procuratorate (“SPP”) and other lower procuratorates administer an independent legal supervisory system that makes decisions on the arrest and prosecution of persons.<sup>4</sup>

23. The Standing Committee of the National People’s Congress has delegated some of its power to interpret laws to both the SPC and SPP. Specifically, under the *Resolution of the Standing Committee of the National People’s Congress on Improving the Work of Interpreting the Law*, the “[q]uestions involving the specific applications of laws and decrees in court trials shall be interpreted by the Supreme People’s Court,” and “[q]uestions involving the specific application of laws and decrees in procuratorial work shall be interpreted by the Supreme People’s Procuratorate.”<sup>5</sup>

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<sup>2</sup> See *Trade Policy Review of the People’s Republic of China, Report by the Secretariat*, WT/TPR/S/161, circulated 28 February 2006, at para. 14 (Box II.1) (Exhibit US-16).

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*, at para. 14.

<sup>5</sup> *Resolution of the Standing Committee of the National People’s Congress on Improving the Work of Interpreting the Law* (adopted at the 19th Meeting of the Standing Committee of the Fifth National People’s Congress on June 10, 1981), at para. 2 (Exhibit US-13).



24. Moreover, the judicial interpretations of the Supreme People’s Court and the Supreme People’s Procuratorate do not serve as mere hortatory guidance or commentary; they have the force of law in China. The SPC and the SPP have confirmed the binding nature of their judicial interpretations. In the *Provisions of the Supreme People’s Court on Judicial Interpretation Work*, the SPC stated that “judicial interpretations issued by the Supreme People’s Court shall have legal effect.”<sup>6</sup> The SPP has provided a similar confirmation in the *Provisions of the Supreme People’s Procuratorate on Judicial Interpretation Work*, which states that “judicial interpretations made by the Supreme People’s Procuratorate shall have legal effect,” so that “People’s procuratorates may use provisions of judicial interpretation in legal documents, such as a bill of indictment.”<sup>7</sup> Moreover, in certain cases involving both judicial and procuratorial work, the SPC and SPP may jointly formulate a judicial interpretation.<sup>8</sup>

## **B. China’s Thresholds for Criminal Penalties and Procedures for Trademark Counterfeiting and Copyright Piracy**

### **1. Introduction – Thresholds**

25. Under Chinese law, neither criminal prosecution nor conviction for certain acts of IPR infringement is possible unless specific monetary or volume-based thresholds are met. China has established these thresholds through provisions in the *Criminal Law of the People’s Republic of China*<sup>9</sup> (“Criminal Law”) as further defined by binding interpretations of that law jointly issued by the SPC and the SPP.

26. These criminal thresholds have long been a concern among WTO Members. Indeed, they were raised as an issue during China’s WTO accession negotiations.<sup>10</sup> China described its criminal provisions dealing with IPR infringement as follows:

The representative of China stated that Articles 213 to 220 of the Criminal Law (Crimes of Infringing on Intellectual Property Rights) provided that whoever

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<sup>6</sup> *Provisions of the Supreme People’s Court on Judicial Interpretation Work*, Fa Fa, (2007) No. 12 (issued on March 23, 2007 and effective on April 1, 2007), at article 5, available at <http://www.court.gov.cn/lawdata/explain/etc/200703230020.htm> (hereinafter “SPC Judicial Work Provisions”) (Exhibit US-14).

<sup>7</sup> *Provisions of the Supreme People’s Procuratorate on Judicial Interpretation Work*, Gao Jian Fa Yan Zi (2006) No. 4 (adopted at the 53<sup>rd</sup> Meeting of the 10th Procuratorial Committee of the Supreme People’s Procuratorate on April 18, 2006, issued and effective on May 10, 2006), at article 5, available at <http://www.spp.gov.cn/site2006/2007-03-01/0026812455.html> (hereinafter “SPP Judicial Work Provisions”) (Exhibit US-15).

<sup>8</sup> SPC Judicial Work Provisions, article 7; SPP Judicial Work Provisions, article 21.

<sup>9</sup> *Criminal Law of the People’s Republic of China* (adopted at the Second Session of the Fifth National People’s Congress on July 1, 1979 and revised at the Fifth Session of the Eighth National People’s Congress on March 14, 1997) (Exhibit US-1).

<sup>10</sup> See Working Party Report, paras. 287, 299, and 303-305. (Exhibit US-17).

seriously infringes the right-holders' rights of registered trademarks, patents, copyrights or trade secrets would be sentenced to fixed-term imprisonment and would also be fined.<sup>11</sup>

27. The Working Party Report summarizes the concerns of certain members of the Working Party with the thresholds present in these provisions:

Some members of the Working Party expressed concerns that criminal procedures could not be used effectively to address piracy and counterfeiting. In particular, the monetary thresholds for bringing a criminal action, as currently applied, were very high and seldom met. Those thresholds should be lowered so as to permit effective action that would deter future piracy and counterfeiting.<sup>12</sup>

28. Thus, members of the Working Party were concerned that China's thresholds failed to satisfy requirements in the TRIPS Agreement with respect to criminal enforcement. However, during the accession negotiations, members of the Working Party were unable to secure a firm commitment from China to solve this problem. China instead provided the following commitment in response to these concerns:

[T]he representative of China stated that China's administrative authority would recommend that the judicial authority make necessary adjustments to lower the thresholds so as to address these concerns.<sup>13</sup>

29. In other words, China acknowledged the concerns that had been expressed regarding the impediments to the application of criminal procedures to counterfeiting and piracy created by its thresholds. But, at that time, it only committed to recommending to its judicial authorities that these criminal thresholds be adjusted to address the concerns.

30. While China has, in fact, reduced certain thresholds below their pre-accession levels, as the United States and other WTO Members have continued to raise their concerns, the current threshold levels have not resolved the fundamental concern expressed by members of the Working Party and reflected in the Working Party Report.

## **2. China's Criminal Law: Overview**

31. Part Two, Chapter III, Section 7 (entitled "Crimes of Infringing on Intellectual Property Rights") of China's Criminal Law defines the acts of IPR infringement that are subject to

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<sup>11</sup> Working Party Report, para. 303.

<sup>12</sup> Working Party Report, para. 304; *see also* para. 287.

<sup>13</sup> Working Party Report, para. 304.

criminal penalties in China.<sup>14</sup> In that Section, Articles 213, 214, and 215 criminalize certain acts of trademark counterfeiting and Articles 217 and 218 criminalize certain acts of copyright piracy. (Article 216 and 219 are not at issue in this dispute because they relate to patents and trade secrets respectively.) The specific provisions at issue here are discussed in detail in subsections 3 and 4 below; this subsection provides an overview of those provisions.

32. Not all acts of trademark counterfeiting and copyright piracy are subject to criminal penalties in China: criminal prosecution or conviction for an act of counterfeiting or piracy is only possible if additional prerequisites are met beyond the act of counterfeiting or piracy itself.

33. The Criminal Law expresses certain of these prerequisites in general terms related to the quantity of monetary gains or seriousness. For example, the act of infringement must either involve “illegal gains” that are “relatively large” or “enormous,” or must involve “circumstances” that are “serious” or “especially serious.” The SPC and SPP have promulgated judicial interpretations articulating the specific standards that must be met in order to trigger criminal prosecution or conviction for each of the offenses.

34. The two judicial interpretations of relevance to this dispute are entitled: (1) the *Interpretation by the Supreme People’s Court and the Supreme People’s Procuratorate of Several Issues Concerning the Specific Application of Law in Handling Criminal Cases Involving Infringement of Intellectual Property Rights* (“December 2004 JI”)<sup>15</sup>; and (2) the *Interpretation by the Supreme People’s Court and the Supreme People’s Procuratorate of Several Issues Concerning the Specific Application of Law in Handling Criminal Cases of Infringement of Intellectual Property Rights (II)* (“April 2007 JI”).<sup>16</sup> By its terms, the April 2007 JI governs in the event of any conflicts with the December 2004 JI.<sup>17</sup> These judicial interpretations were jointly issued by the SPC and the SPP. As discussed in section III.A above, these judicial interpretation have full and binding legal effect.

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<sup>14</sup> See *Review of Legislation: China*, IP/Q/CHN/1, circulated 10 December 2002, at p. 33 (Exhibit US-18).

<sup>15</sup> *Interpretation by the Supreme People’s Court and the Supreme People’s Procuratorate of Several Issues Concerning the Specific Application of Law in Handling Criminal Cases Involving Infringement of Intellectual Property Rights* (adopted at the 1331<sup>st</sup> Session of the Judicial Committee of the Supreme People’s Court on November 2, 2004 and the 28<sup>th</sup> Session of the Tenth Procuratorial Committee of the Supreme People’s Procuratorate on November 11, 2004 and effective as of December 22, 2004) (Exhibit US-2).

<sup>16</sup> *Interpretation by the Supreme People’s Court and the Supreme People’s Procuratorate of Several Issues Concerning the Specific Application of Law in Handling Criminal Cases of Infringement of Intellectual Property Rights (II)* (adopted on April 4, 2007, at the 1422<sup>nd</sup> Session of the Judicial Committee of the Supreme People’s Court and the 75<sup>th</sup> Session of the Tenth Procuratorial Committee of the Supreme People’s Procuratorate, and to be effective on April 5, 2007) (Exhibit US-3).

<sup>17</sup> See April 2007 JI, article 7. Similarly, the terms of the December 2004 JI will govern in the case of conflict with any “previously promulgated interpretations” regarding intellectual property rights. See December 2004 JI, article 17.

35. The December 2004 JI quantifies the prerequisites for criminal prosecution or conviction in the Criminal Law in three main ways. *First*, it defines some thresholds in terms of a specific minimum “illegal business volume” (stated in terms of minimum “values” of products manufactured, stored, transported or sold) realized by the infringer. The December 2004 JI provides that the “illegal business volume” trigger for criminal prosecution or conviction normally is not calculated based on the value of the legitimate product being displaced by the infringing activity.<sup>18</sup> Rather it is calculated by the prices at which the counterfeit goods are sold – or the prices at which they are labeled for sale. In other words, these values are calculated by using the infringer’s prices for the infringing goods rather than the prices of legitimate goods on the market.

36. *Second*, the December 2004 JI defines some thresholds in terms of minimum amounts of “illegal gains” reaped by the infringer. The term “illegal gains” itself is not elaborated upon in the December 2004 JI (or the April 2007 JI).<sup>19</sup>

37. *Third*, the December 2004 JI defines some thresholds in terms of minimum numbers of “illegal copies.”<sup>20</sup> The April 2007 JI further addresses the “illegal copy” threshold with respect to certain acts of copyright or related rights infringement by providing a lower threshold for the minimum number of copies than the December 2004 JI.

38. In short, the provisions of the Criminal Law, as further defined by the December 2004 JI and April 2007 JI, establish thresholds for criminal prosecution and conviction of certain acts of trademark counterfeiting and copyright piracy. These thresholds are more fully discussed below.

### 3. Trademark Counterfeiting Thresholds

39. Articles 213-215 of the Criminal Law, read together with the December 2004 JI, describe the specific acts of trademark counterfeiting that may be subject to criminal procedures and penalties in China. Acts of counterfeiting that do not meet the particular thresholds set forth in these provisions are not subject to criminal prosecution or conviction under China’s Criminal Law.

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<sup>18</sup> According to Article 12 of the December 2004 JI, “illegal business volume” is to be calculated as follows: “[t]he value of the sold infringing products shall be computed according to the actual selling price. The value of the manufactured, stored, transported or unsold goods shall be computed according to the labeled price or the average actual selling price of sold infringing goods. [The] [v]alue of products produced by infringing on intellectual property rights that have no labeled prices or whose actual prices are impossible to be ascertained shall be computed according the median market prices of such products.”

<sup>19</sup> The term “illegal gains” is defined as “amount of profits obtained” in a prior judicial interpretation issued by the SPC. *See Interpretation by the Supreme People’s Court of Certain Questions Concerning the Specific Application of Law in Adjudicating Criminal Cases Involving Illegal Publications*, Fa Shi, (1998) No. 30 (adopted by the Adjudication Committee of the Supreme People’s Court at its 1032<sup>nd</sup> meeting on December 11, 1998, effective as of December 23, 1998), article 17 (Exhibit US-4).

<sup>20</sup> *See, e.g.*, December 2004 JI, article 5.

### Article 213

40. Article 213, read together with the December 2004 JI, provides criminal penalties only for specific cases of infringement involving the use of a counterfeit trademark. Article 213 reads as follows:

When a trademark is used that is identical to a registered trademark on the same kind of commodities without permission from the owner of the registered trademark and where the circumstances are serious, the offender shall be sentenced to up to three years of imprisonment or detention as well as fined, or fined only; where the circumstances are especially serious, the offender shall be sentenced to imprisonment of three to seven years as well as fined. (*Emphasis added.*)

41. The December 2004 JI defines the term “use” in Article 213 of the Criminal Law to mean any of a series of acts related to the production of counterfeit goods.<sup>21</sup> The December 2004 JI defines “serious circumstances” to require more than RMB 50,000 (USD \$ 6,925)<sup>22</sup> in illegal business volume or RMB 30,000 (USD \$4,155) in illegal gains if one or two registered trademarks are involved.<sup>23</sup> If more than two registered trademarks are involved, the December 2004 JI defines “serious circumstances” to require more than RMB 30,000 (USD \$4,155) in illegal business volume or RMB 20,000 (USD \$2,770) in illegal gains.<sup>24</sup>

42. With respect to “especially serious circumstances,” the following thresholds must be met in the case of one or two registered trademarks: at least RMB 250,000 (USD \$34,625) in illegal business volume or illegal gains of at least RMB 150,000 (USD \$20,775). If more than two registered trademarks are involved, the December 2004 JI defines “especially serious circumstances” to require more than RMB 150,000 (USD \$20,775) in illegal business volume or RMB 100,000 (USD \$13,850) in illegal gains.<sup>25</sup>

### Article 214

43. Article 214, together with the December 2004 JI, provides criminal penalties only for specific cases involving the sale of counterfeit merchandise. Article 214 provides:

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<sup>21</sup> According to Article 8 of the December 2004 JI, “use” means acts that include applying registered trademarks or counterfeit trademarks to commodities, packaging, or user guides, and transaction documents.

<sup>22</sup> U.S. Dollar currency conversions throughout the First Submission of the United States are based upon a Chinese Yuan (RMB) to U.S. Dollar rate of 0.1385 that was reported on January 24, 2008.

<sup>23</sup> Article 1 of the December 2004 JI provides that the definition of “serious circumstances” in Article 213 can also be met by “other circumstances of a serious nature.”

<sup>24</sup> December 2004 JI, article 1.

<sup>25</sup> December 2004 JI, article 1. The December 2004 JI provides that the definition of “especially serious circumstances” in Article 213 can also be met by “other circumstances of an especially serious nature.” *Id.*

When goods are sold that are clearly known to bear counterfeit registered trademarks and where the amount of sales is relatively large, the offender shall be sentenced to up to three years of imprisonment or detention and fined, or fined only; where the amount of sales is enormous, the offender shall be sentenced to imprisonment of three to seven years as well as fined. (*Emphasis added.*)

44. The December 2004 JI defines the term “amount of sales” as “all the illegal incomes gained or ought to be gained by selling commodities bearing counterfeited registered trademarks.”<sup>26</sup> The December 2004 JI also provides that the amount of sales of such commodities qualifies as “relatively large” if the amount is more than RMB 50,000 (USD \$6,925).<sup>27</sup> An amount of sales qualifies as “enormous” if it is greater than RMB 250,000 (USD \$34,625).<sup>28</sup>

#### Article 215

45. Article 215, read together with the December 2004 JI, provides for criminal penalties only for specific cases of forgery or other unauthorized making or selling of representations of a registered trademark. Article 215 states:

Forging or making without authorization representations of another person’s registered trademark or selling representations of another person’s registered trademark that are forged or made without authorization and where circumstances are serious, the offender shall be sentenced to up to three years of imprisonment, detention, or public surveillance as well as fined, or fined only; where the circumstances are especially serious, the offender shall be sentenced to imprisonment of three to seven years as well as fined. (*Emphasis added.*)

46. The December 2004 JI clarifies that, in cases of one or two registered trademarks, one of the following thresholds must be met to find “serious” circumstances under Article 215: 20,000 copies of the forged or unauthorized trademarks must be found; the value of the “illegal business volume” must reach RMB 50,000 (USD \$6,925); or the illegal gains must reach RMB 30,000 (USD \$4,155).<sup>29</sup> If more than two registered trademarks are involved, one of the following thresholds must be met to find “serious circumstances” under Article 215: 10,000 copies of the forged or unauthorized trademarks; the value of the “illegal business volume” must be more than

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<sup>26</sup> December 2004 JI, article 9.

<sup>27</sup> December 2004 JI, article 2.

<sup>28</sup> December 2004 JI, article 2.

<sup>29</sup> December 2004 JI, article 3. The December 2004 JI provides that the definition of “serious circumstances” in Article 215 can also be met by “other circumstances of a serious nature.” *Id.*

RMB 30,000 (USD \$ 4,155); or the illegal gains must be more than RMB 20,000 (USD \$2,770).<sup>30</sup>

47. With respect to “especially serious circumstances,” the following thresholds must be met in the case of one or two registered trademarks: at least 100,000 copies of the forged or unauthorized trademarks; at least RMB 250,000 (USD \$34,625) in illegal business volume; or a minimum of RMB 150,000 (USD \$20,775) in illegal gains.<sup>31</sup> If more than two registered trademarks are involved, the December 2004 JI defines “especially serious circumstances” to require at least 50,000 copies of the forged or unauthorized trademark, more than RMB 150,000 (USD\$ 20,775) in illegal business volume or RMB 100,000 (USD \$13,850) in illegal gains.<sup>32</sup>

#### 4. Copyright Piracy Thresholds

48. Articles 217 and 218 of the Criminal Law, read together with the December 2004 JI and April 2007 JI, describe the specific acts of copyright piracy that may be subject to criminal procedures and penalties. Similar to the limitations created with respect to criminal acts of trademark infringement above, acts of piracy that do not meet the particular thresholds set forth in the provisions are not subject to criminal prosecution or conviction under China’s Criminal Law.

##### *Article 217*

49. Article 217 of the Criminal Law, read together with the December 2004 JI and April 2007 JI, provides criminal penalties only for specific acts of copyright and related rights infringement. Article 217 reads as follows:

When any of the following infringements of copyright is committed for profit-making purpose, and the illegal gain is relatively large or where there are other serious circumstances, the offender shall be sentenced to up to three years of imprisonment or detention and fined, or fined only. Where the illegal gains are enormous and there are other especially serious circumstances, the offender shall be sentenced to imprisonment of three to seven years as well as fined:

A. reproduction and distribution<sup>33</sup> of written work, music, films, television programs, video works, computer software, or other works without permission of the copyright owner;

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<sup>30</sup> December 2004 JI, article 3.

<sup>31</sup> December 2004 JI, article 3. The December 2004 JI provides that the definition of “especially serious circumstances” in Article 215 can also be met by “other circumstances of an especially serious nature.” *Id.*

<sup>32</sup> December 2004 JI, article 3.

<sup>33</sup> Article 2 of the April 2007 JI clarifies that, “[f]or the purposes of Article 217, the term ‘reproduction and distribution’ means reproduction and/or distribution.”

- B. publication of books of which others own the exclusive rights of publication;
- C. reproduction and distribution of audio or video recordings produced by another person without permission of that person; or
- D. production and sale of art works with forged signatures. (*Emphasis added.*)

50. The December 2004 JI defines “relatively large” illegal gains to mean gains of more than RMB 30,000 (USD \$4,155). The December 2004 JI defines “serious circumstances” as more than RMB 50,000 (USD \$6,925) in “illegal business volume;” or reproducing and distributing more than 1,000 illegal copies without permission of the copyright owner.<sup>34</sup> The April 2007 JI, however, provides that in the case of Article 217, “serious circumstances” will be found on the basis of 500 copies instead of 1,000 copies.<sup>35</sup>

51. The December 2004 JI defines an “enormous” amount of illegal gains as more than RMB 150,000 (USD \$20,775).<sup>36</sup> The December 2004 JI defines “especially serious circumstances” as more than RMB 250,000 (USD \$34,625) in illegal business volume or reproducing and distributing more than 5,000 illegal copies without permission of the copyright owner.<sup>37</sup> The April 2007 JI, however, provides that “especially serious circumstances” in the case of Article 217 will be found on the basis of at least 2,500 copies instead of 5,000 copies.<sup>38</sup>

52. The April 2007 JI also makes clear that in cases where the infringement of another’s copyrighted work constitutes a crime, that offender “shall be convicted and punished for the crime of copyright infringement.”<sup>39</sup>

#### *Article 218*

53. Article 218 of the Criminal Law, read together with the December 2004 JI, provides criminal penalties for certain specific sales of infringing reproductions (as defined in Article 217). Article 218 provides:

Selling reproductions for profit which are clearly known to infringe on copyrights as stipulated in Article 217 of this Law and where the illegal gains are enormous,

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<sup>34</sup> December 2004 JI, article 5. The December 2004 JI also provides that “serious circumstances” in Article 217 can also be met by “other circumstances of a serious nature.” *Id.*

<sup>35</sup> April 2007 JI, article 1.

<sup>36</sup> December 2004 JI, article 5. The December 2004 JI also provides that “especially serious circumstances” in Article 217 can also be met by “other circumstances of an especially serious nature.” *Id.*

<sup>37</sup> December 2004 JI, article 5.

<sup>38</sup> April 2007 JI, article 1

<sup>39</sup> April 2007 JI, article 2.



the offender shall be sentenced to up to three years of imprisonment or detention and shall also be fined, or fined only. (*Emphasis added.*)

54. The December 2004 JI defines “enormous” as more than RMB 100,000 (USD \$13,850) in illegal gains.<sup>40</sup> This threshold was not lowered in the April 2007 JI.

## 5. Conclusion

55. As the foregoing demonstrates, China’s Criminal Law, combined with the December 2004 JI and April 2007 JI, creates specific quantitative or monetary thresholds that must be met before acts of copyright piracy or trademark infringement can be subject to criminal prosecution or conviction under Articles 213, 214, 215, 217, and 218 of the Criminal Law – the provisions in the Criminal Law directed against trademark counterfeiting and copyright piracy. Accordingly, acts of trademark counterfeiting and copyright piracy that fall below the thresholds China has established are not subject to criminal prosecution or conviction under the Criminal Law.

### C. China’s Measures Regarding the Disposal of Infringing Goods Confiscated by the Customs Authorities

#### 1. Introduction

56. China maintains a set of measures that collectively establish a clear hierarchy of rules governing the disposal of imported goods that Chinese Customs authorities confiscate as infringing intellectual property rights. Under those rules, the Customs authorities are only permitted to destroy the infringing goods as a last resort. Before they have the power to take this step they must first attempt to dispose of the goods in one of several other ways – by selling them to the right holder, transferring them to public welfare organizations, or auctioning off the seized goods following removal of infringing features.

57. The following measures create this compulsory scheme: the *Regulations of the People’s Republic of China for Customs Protection of Intellectual Property Rights* (“Customs IPR Regulations”),<sup>41</sup> the *Implementing Measures of Customs of the People’s Republic of China for the Regulations of the People’s Republic of China on Customs Protection of Intellectual*

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<sup>40</sup> December 2004 JI, article 6.

<sup>41</sup> *Regulations of the People’s Republic of China for Customs Protection of Intellectual Property Rights* (adopted at the 30<sup>th</sup> Ordinary Meeting of the State Council on November 26, 2003, published by the State Council on December 2, 2003, and effective from March 1, 2004) (Exhibit US-5). China has notified the Customs IPR Regulations to the World Trade Organization pursuant to its obligations under the Protocol on Accession. See *Communication from China, Transitional Review Mechanism of China*, IP/C/W/436, circulated 29 November 2004 (Exhibit US-19).

*Property Rights* (“Customs IPR Implementing Measures”),<sup>42</sup> and *Announcement No. 16 of the General Administration of Customs* (“Customs Announcement No. 16”).<sup>43</sup> These measures are discussed in turn below.

## 2. The Measures

### *Customs IPR Regulations*

58. The Customs IPR Regulations contain the general rules and procedures governing the border enforcement of intellectual property rights by China’s Customs authorities.<sup>44</sup> The Regulations, promulgated by the State Council, apply to the import and export of goods that infringe intellectual property rights, including trademarks, copyright and related rights, and patents.<sup>45</sup>

59. Article 27 of the Customs IPR Regulations deals with the confiscation and disposal of imported goods that Customs has determined infringe intellectual property rights. Article 27 sets forth a general hierarchy of rules for the disposal of these goods:

Where confiscated goods that infringe on intellectual property rights can be used for the public good, Customs shall forward such goods to relevant public welfare organizations for the use of the public good. If the holder of the intellectual property rights wishes to buy them, Customs can transfer them to the holder with compensation. If the confiscated goods infringing on intellectual property rights cannot be used for public welfare and the holder of the intellectual property rights has no wish to buy them, Customs can, after eradicating the marks of infringement, auction them off according to law. If the marks of infringement are impossible to eradicate, Customs shall destroy the goods.

### *Customs IPR Implementing Measures*

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<sup>42</sup> *Implementing Measures of Customs of the People’s Republic of China for the Regulations of the People’s Republic of China on Customs Protection of Intellectual Property Rights* (adopted at an Administration Affairs Meeting of the General Administration of Customs on April 22, 2004, issued by the General Administration of Customs with Order No. 114 on May 25, 2004, and effective from July 1, 2004) (Exhibit US-6).

<sup>43</sup> *Announcement No. 16 2007 of the General Administration of Customs of the People’s Republic of China* (April 2, 2007), available at <http://english.mofcom.gov.cn/aarticle/policyrelease/gazettee/200705/20070504708650.html#> (Exhibit US-7).

<sup>44</sup> Customs IPR Regulations, articles 1-2.

<sup>45</sup> Customs IPR Regulations, article 2. Under the Customs IPR Regulations, “intellectual property rights” refers to the exclusive right to use a trademark, copyrights and related rights, and to patent rights that relate to import or export goods and that are protected under the laws and administrative statutes of the People’s Republic of China.” *Id.*

60. The Customs IPR Implementing Measures, which were formulated to “effectively implement[ ]” the Customs IPR Regulations, provide additional precision to the operation of the disposal hierarchy to be used by Chinese Customs.<sup>46</sup> Article 30 of the Customs IPR Implementing Measures parallels the structure of Article 27 of the Customs IPR Regulations, but sets forth more details concerning how Customs must proceed in handling the disposal of confiscated goods. In relevant part, Article 30 provides that Customs shall dispose of confiscated goods in accordance with the following provisions:

A. Where the relevant goods may be used directly for the public good or the owner of the intellectual property rights is willing to purchase the goods, Customs shall send the goods to the relevant public welfare organizations for the use of the public good or turn them over with compensation to the owner of the intellectual property rights;

B. Where relevant goods cannot be disposed of in accordance with (A) but the marks of infringement can be eradicated, they shall be auctioned off according to law after eradicating the marks of infringement. The funds raised from the auction shall be turned over to the state treasury; and

C. Where relevant goods cannot be disposed of in accordance with provisions (A) and (B), they shall be destroyed.

*Customs Announcement No. 16*

61. Customs Announcement No. 16 confirms, and in some respects elaborates upon, the rules promulgated in the Customs IPR Regulations and Implementing Measures.<sup>47</sup> In the first numbered paragraph, the Customs Announcement states that “Customs shall completely eliminate all characteristics of infringement of commodities infringing intellectual property rights, including trademarks, copyright, patent and so on strictly in line with Article 27 of the [Customs IPR] Regulations. Those commodities whose characteristics of infringement cannot be completely eliminated shall be destroyed and cannot be sold by auction.” Furthermore, in the second numbered paragraph, the Customs Announcement provides that Customs shall ask IPR owners for “comments” before the auction.

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<sup>46</sup> Customs IPR Implementing Measures, article 1.

<sup>47</sup> Announcement No. 16 2007 of the General Administration of Customs of the People’s Republic of China (April 2, 2007), available at <http://english.mofcom.gov.cn/aarticle/policyrelease/gazettee/200705/20070504708650.html#> (Exhibit US-7).

## **D. Article 4 of China’s Copyright Law**

### **1. The Copyright Law**

62. The current version of the *Copyright Law of the People’s Republic of China* (the “Copyright Law”)<sup>48</sup> dates from October 2001, when China amended a copyright law that had originally been adopted in 1990. The Copyright Law provides the legal basis within China for protecting and enforcing the copyrights of authors in their literary, artistic and scientific works, as well as the legal basis for protecting and enforcing “related rights.”<sup>49</sup> The Copyright Law protects the creative works of both foreign and Chinese authors.<sup>50</sup>

63. Article 3 of the Copyright Law enumerates the “works” to which the copyright provisions of the law apply. In response to a question posed during the WTO Review of China’s Legislation in 2002, China confirmed the broad scope of this provision:

With regard to protected works, the Copyright Law of China gives a non-exhaustive list as the Berne Convention does. Article 3 of the said Law enumerates common categories of creations to illustrate literary, artistic and scientific works, and the expression “other works as provided for in laws and administrative regulations” in (9) of this Article shows that the enumeration of the above-mentioned works is purely one of examples and not limitative.

The expression “other works as provided for in laws and administrative regulations” mainly refers to the new categories of works which are not known at present but possibly will emerge in the future with the development of science and technology.<sup>51</sup>

64. Article 10 of the Copyright Law enumerates rights and protections for authors of creative works. These rights include rights of reproduction, distribution, adaption, translation, and communication through an information network, among others. In a question-and-answer exchange during the 2002 WTO Review of its legislation, China confirmed the broad scope of these rights:

[Q:] Please indicate the detail of “other rights which shall be enjoyed by copyright owners” stipulated in the Article 10.1(17) of the Copyright Law.

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<sup>48</sup> The Copyright Law is contained in WTO document IP/N/1/CHN/C/1, and is also found in exhibit US-8. China notified the Copyright Law to the WTO pursuant to its obligations under Article 63.2 of the WTO Agreement. *See also* Working Party Report, para. 334, incorporated into Part I, para. 1.2, of the Accession Protocol.

<sup>49</sup> Copyright Law, article 1.

<sup>50</sup> Copyright Law, article 2. More precisely, foreign authors’ works are protected if they meet at least one of the conditions, or points of attachment, set out in article 2.

<sup>51</sup> IP/Q/CHN/1, pp. 25-26. (Exhibit US-18).

[A:] “Other rights which shall be enjoyed by copyright owners” mainly refer to the rights which may be recognized to control new exploiting manner or form of works emerging with the development of new technology.<sup>52</sup>

65. In addition to protecting creative works and their authors, the Copyright Law provides specific statutory protections to performers, producers of sound recordings, and broadcasting organizations.<sup>53</sup> For example, a performer has the right to authorize others’ broadcasting or communicating to the public the performer’s live performance, and to authorize the making of sound recordings of a performance.<sup>54</sup> To give another example, a producer of sound recordings has the right to authorize others to reproduce, distribute, rent or make available to the public through information networks its sound recordings.<sup>55</sup> These types of statutory protections are commonly referred to as “related rights.”<sup>56</sup>

66. Articles 46 and 47 of the Copyright Law define “acts of infringement” of these copyright rights and related rights. In general, these articles provide that it is an act of infringement to take an action that is the subject of a copyright right or a related right (e.g., reproducing a work) without the consent of the holder of the copyright or related right. Under these articles, all such acts of infringement expose the infringer to civil liability; for some such acts, additional administrative consequences (such as confiscation of the tools used to commit the infringement) are possible; and, in some circumstances, the infringer may be exposed to criminal liability.

67. The first sentence of Article 4 of the Copyright Law, however, denies the protection of the Copyright Law to certain categories of works. The first sentence of Article 4 provides as follows:

Works the publication or distribution of which is prohibited by law shall not be protected by this Law.

68. This provision of the Copyright Law has raised concern among WTO Members. During the 2002 WTO Review of Legislation in the TRIPS Council, one WTO Member posed the following question to China:

[Q:] Please explain exhaustively (i) the relevant law(s) and (ii) specific form(s) of works stipulated in the first sentence of Article 4 of the Copyright Law, which

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<sup>52</sup> IP/Q/CHN/1, p. 26.

<sup>53</sup> Copyright Law, articles 36-45.

<sup>54</sup> Copyright Law, article 37.

<sup>55</sup> Copyright Law, article 41.

<sup>56</sup> See, e.g., Copyright Law, article 1 (“... and the rights related to copyright . . .”) and TRIPS Agreement, Part II, Section 1 (entitled “Copyright and Related Rights”).

provides “Works the publication or distribution of which is prohibited by the law shall not be protected by this Law”.<sup>57</sup>

69. China answered this question as follows:

[A:] The first sentence of Article 4 of the Copyright Law refers to the works of which the publication or distribution is prohibited by such laws and regulations as the Criminal Law, the Regulations on the Administration of Publishing Industry, the Regulations on the Administration of Broadcasting, the Regulations on the Administration of Audiovisual Products, the Regulations on the Administration of films, and the Regulations on the Administration of Telecommunication.<sup>58</sup>

## 2. Prohibitions on Publishing and Distribution

70. As is clear from the phrase “such laws and regulations as . . . ,” the answer that China gave during the WTO Review of Legislation was only an illustrative list (not an exhaustive one) of the laws and regulations prohibiting publication or distribution that lead to the denial of copyright protection under Article 4 of the Copyright Law. This subsection describes several such laws and regulations that are relevant to the denial of copyright protection that is at issue in this dispute.<sup>59</sup>

71. A number of Chinese laws and regulations prohibit the publication or distribution of works under various circumstances. These circumstances may relate to the contents of the work in question. They may also relate to the status of a work within the process through which the contents of a work must be reviewed and approved.

72. The rules applicable to films provide a good example. The *Regulation on the Administration of Films* (the “Films Regulation”) (which is mentioned in China’s answer to the question about Article 4 of the Copyright Law) generally governs the “production, import, export, distribution and screening of films within the territory of the People’s Republic of China, including feature films, documentary films, science and educational films, animation films, and special topic films.”<sup>60</sup>

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<sup>57</sup> IP/Q/CHN/1, p. 26.

<sup>58</sup> *Id.*

<sup>59</sup> It is important to note that the TRIPS-inconsistencies discussed in Part VI of this submission do not consist of China’s decision to prohibit certain works from being published or distributed in China. The TRIPS Agreement does not obligate China, or any other WTO Member, to permit all works to be published and all works to be distributed. Instead, the TRIPS-inconsistencies arise from China’s decision to deny copyright protection and enforcement to the works that it prohibits.

<sup>60</sup> Films Regulation, article 2. The regulations are contained in State Council Order No. 342, which was adopted at the 50th executive meeting of the State Council on December 12, 2001, and promulgated on December 25, 2001. (Exhibit US-9).

73. Article 24 of the Films Regulation sets out a general rule prohibiting the publication and distribution of films that have not yet successfully completed the content review process. Article 24 provides: “Films, which have not been reviewed and approved by the Film Censorship Board of the radio, film, and television administration under the State Council ... shall not be distributed, screened, imported or exported.”<sup>61</sup> Article 31 elaborates on this requirement for imported films: “Those intending to import films for public screening shall, before importing, submit the film to the Film Censorship Board for review.”

74. Article 25 describes, in general terms, the contents that are forbidden from inclusion in films, and Articles 27 through 29 set out the content review process. Article 27 provides that for domestically produced films, “[a] film production entity shall, after producing a film, submit it to the Film Censorship Board for review.” For imported films, article 27 provides that “a film importing entity shall, after completing the temporary import procedures for a film, submit it to the Film Censorship Board for review.”

75. Article 28 provides that the authority will make a decision within 30 days, and “[i]f the film meets review standards, a Permit for Public Screening of a Film shall be issued by [SARFT].” Article 28 also provides that if a film does not pass censorship, the film studio or importer may revise it and may submit the revised version for content review. Article 29 provides for recensorship by a censorship review board if the film studio or importer is dissatisfied with the original Film Censorship Board’s determination.

76. Article 42 reiterates and elaborates the provisions of Article 24 with respect to film distribution and projection: “After a party has legally obtained a Permit for Public Screening of a Film issued by [SARFT] for a film, it can engage in the distribution and screening of that film.” Article 42 also provides for the possibility of further content review after distribution and projection has begun: “With respect to a film for which the Permit for Public Screening of a Film has been obtained, [SARFT] may, under particular circumstances, make a decision to stop the distribution and screening of the film, or to allow distribution and screening after it is revised. If a film is approved for distribution and screening after it undergoes revision, but the copyright owner refuses to revise it, [SARFT] shall issue a decision to stop distribution or screening of the film.”

77. In summary, the Films Regulation provides that for some period of time after the creation of a film, until that film has been submitted for content review and has completed that review unchanged, the film cannot legally be imported, distributed or projected. Furthermore, if the content review process requires revision to a film, the unrevised version never receives a Permit for Public Show of Films and thus can never legally be imported, distributed or projected.

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<sup>61</sup> The “radio, film, and television administration under the State Council” is commonly referred to as “SARFT.”

78. Similar content review systems, with similar prohibitions on publication or distribution in the absence of successful conclusion of the content review process, apply with respect to products other than films. Particularly affected are publications; audio and video products; and electronic publications.

79. The *Regulation on the Management of Publications*<sup>62</sup> (the “Publications Regulation”) applies certain rules to publications such as newspapers, periodicals, books, audio and video products, and electronic publications. Articles 26 and 27 of the Publishing Regulation describe, in general terms, the contents that are forbidden from inclusion in publications, and Article 40 provides that publications with such content cannot be printed, reproduced or distributed. Article 40 also provides that illegally imported publications cannot be printed, reproduced or distributed.

80. Articles 44 and 45 establish procedures for the content review of imported publications. Article 44 first prohibits the importation of publications containing prohibited content. Article 44 further contemplates that entities importing publications either examine the content of imported publications themselves or, where these entities are “unable to identify whether the imported publications include any content prohibited by Articles 26 and 27,” they ask the Chinese authorities to examine the publication’s contents. Furthermore, Article 45 contemplates that publication importing entities will in all circumstances provide the Chinese authorities with a catalog of the publications proposed to be imported. Article 45 provides that the authorities will examine the catalog and advise the importer of any prohibited publications; such publications cannot be imported (and, pursuant to Article 40, are also prohibited from distribution).

81. The *Regulation on the Management of Audiovisual Products* (the “AV Regulation”) applies *inter alia* to the publishing, production, reproduction, import, wholesale, retail, and rental of recorded audio and video tapes, records, and audio and video CD’s.<sup>63</sup>

82. Article 28 of the AV Regulation requires anyone importing an audio or video product to submit it to the administrative department for cultural affairs under the State Council for content review. Article 36 of the AV Regulation provides that no audio and video product wholesaling entity or entity or individual engaged in retailing of audio and video products shall deal in audio and video products that are imported without the approval of the administrative department for cultural affairs under the State Council. Article 36 thus means that imported audio and video products are not permitted to be distributed within China until they have successfully completed content review.

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<sup>62</sup> State Council Order No. 343, adopted at the 50th executive meeting of the State Council on December 12, 2001, promulgated on December 25, 2001. (Exhibit US-10).

<sup>63</sup> Regulation on the Administration of Audio and Video Products, article 2. (Exhibit US-11).



83. The *Regulations on the Management of Electronic Publications*<sup>64</sup> (the “EP Regulation”) applies to “electronic publications,” which are defined in Article 2 of the EP Regulation as including publications on media such as floppy disc (FD), compact disc read-only memory (CD-ROM), compact disc-interactive (CD-I), Photo-CD, digital video disc read-only memory (DVD-ROM), and integrated card (IC Card).

84. Article 33 of the EP Regulation applies when a Chinese firm seeks to publish an electronic publication that has been licensed to it by a foreign copyright holder; and requires that the contents be submitted to the Chinese press and publication administration (at the local, regional or national level) for examination and approval. Article 72(B) of the EP Regulation provides that no such electronic publication can be distributed within China until the approval has been issued.

85. Article 58 of the EP Regulation provides similar rules for electronic publications imported in finished form: the contents must be submitted to the Chinese authorities for examination and approval, and may be imported only after the approval has been issued. Article 72(C) of the EP Regulation provides that no such imported electronic publication can be distributed within China until the approval has been issued.

#### **IV. CHINA’S THRESHOLDS FOR CRIMINAL PROCEDURES AND PENALTIES ARE INCONSISTENT WITH CHINA’S OBLIGATIONS UNDER ARTICLES 61 AND 41.1 OF THE TRIPS AGREEMENT**

##### **A. Introduction**

86. Part III of the TRIPS Agreement (“Enforcement of Intellectual Property Rights”) represents a significant achievement in the international protection of intellectual property rights. The provisions of Part III set out the first comprehensive, multilaterally agreed legal framework for IPR enforcement, reflecting WTO Members’ recognition of “the need for new rules and disciplines concerning: . . . (c) the provision of effective and appropriate means for the enforcement of trade-related intellectual property rights, taking into account differences in national legal systems . . . .”<sup>65</sup> The rules and disciplines in Part III cover a broad spectrum of enforcement tools to be made available to right holders and to governments. Those rules and disciplines extend to civil and administrative procedures and remedies; provisional measures; border measures; and criminal procedures and remedies. Viewed in their entirety, the commitments undertaken by WTO Members in Part III of the TRIPS Agreement establish an important minimum standard for IPR enforcement.

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<sup>64</sup> Order No. 11 of the General Administration of Press and Publication (December 30, 1997). The EP Regulation was promulgated on the basis of the Publications Regulation; *see* EP Regulation, article 1. (Exhibit US-12).

<sup>65</sup> TRIPS Agreement, Preamble.

87. Regrettably, however, as this Part IV of the U.S. Submission will detail, the criminal law aspects of China’s IPR enforcement regime do not meet the minimum standard that WTO Members have agreed to.

88. The thresholds in China’s Criminal Law and the December 2004 and April 2007 judicial interpretations (collectively China’s “criminal thresholds”) do not meet the minimum standard in the TRIPS Agreement because they prevent criminal procedures and penalties from being applied in many cases of wilful trademark counterfeiting and copyright piracy on a commercial scale. This is because in China, a case of wilful trademark counterfeiting or copyright piracy will not be subject to criminal prosecution or conviction – and thus is not subject to criminal procedures and penalties – unless it meets the criminal thresholds described in Section III.B above. Thus, when such a case falls below the thresholds that China has established, the application of criminal procedures and penalties for copyright piracy or trademark counterfeiting becomes legally impossible. And, as the remainder of this part of the U.S. Submission will show, wilful trademark counterfeiting and copyright piracy on a commercial scale can occur in many cases without triggering these criminal thresholds.

89. China’s measures are therefore inconsistent with Article 61, first sentence, Article 61, second sentence, and Article 41.1 of the TRIPS Agreement. The first sentence of Article 61 requires China to “provide for” criminal procedures and penalties “to be applied” “at least” in cases of “wilful trademark counterfeiting and copyright piracy on a commercial scale.” In other words, this requirement represents a minimum requirement for WTO Members. The criminal thresholds described in section III.B above prevent China from meeting this minimum obligation.

90. The second sentence of Article 61 provides that “[r]emedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent . . . .” However, as noted, the criminal thresholds described in section III.B of this submission create a safe harbor that precludes the availability of these criminal remedies in many instances of wilful trademark counterfeiting and copyright piracy on a commercial scale. Accordingly, China’s thresholds are also inconsistent with China’s obligations under the second sentence of Article 61. When the conduct is not even subject to criminal prosecution or conviction, the law neither makes “available” a remedy nor creates any “deterrent.”

91. Moreover, as a result of China’s failure “to provide for” criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale as required by Article 61, first sentence, China’s measures at issue are also inconsistent with China’s obligation under Article 41.1 of the TRIPS Agreement to make these enforcement procedures “available under [its] law.”

## **B. Article 61, First Sentence, of the TRIPS Agreement**

92. The first sentence of Article 61 of the TRIPS Agreement provides:

Members shall provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale.

93. The obligation in the first sentence of Article 61 is comprised of a number of elements. China “shall provide for” criminal procedures and penalties “to be applied” “at least” in cases of “wilful trademark counterfeiting and copyright piracy on a commercial scale.” In this subsection, we discuss each of these elements briefly as background for the discussion of China’s criminal thresholds in subsection IV.C below.<sup>66</sup>

### **1. “Shall Provide For” and “At Least”: Article 61 Establishes a Floor**

94. Article 61 requires that Members “shall provide for criminal procedures and penalties ... .” In this context, “provide for” means to “take appropriate measures in view of a possible event; make adequate preparation.”<sup>67</sup> The phrase “Members shall provide for . . .” thus means that Members have an obligation to include in their law criminal procedures and penalties that apply in cases of wilful commercial scale trademark counterfeiting and copyright piracy.

95. The first sentence of Article 61 also conveys the breadth of situations where the criminal procedures and penalties are to be provided for; i.e., “at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale” (emphasis added). The words “at least” in Article 61, first sentence, are important. They make clear that Article 61 sets a floor for WTO Members: Members must provide for criminal procedures and penalties to be applied to the entire set of cases within this universe – to all cases of wilful trademark counterfeiting and copyright piracy on a commercial scale. Members are not required to provide for criminal procedures and penalties for other types of IPR infringement. However, only providing for criminal procedures and penalties to be applied *in some cases* of “wilful trademark counterfeiting

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<sup>66</sup> Article 3.2 of the DSU requires the Panel to interpret the provisions at issue in accordance with the customary rules of interpretation of public international law. Those rules of treaty interpretation are reflected in the relevant provisions of the *Vienna Convention on the Law of Treaties* (“Vienna Convention”), particularly Articles 31 and 32. In its report in the dispute *India – Patent Protection for Pharmaceuticals and Agricultural Chemical Products*, WT/DS50/AB/R, adopted January 16, 1998, p.17, the Appellate Body found that the obligations of the TRIPS Agreement should be analyzed in accordance with Article 31 of the Vienna Convention. Cf. Appellate Body Report, *United States – Standards for Reformulated and Conventional Gasoline*, WT/DS2/AB/R, adopted May 20, 1996, p. 16-17. The general rule of treaty interpretation contained in Article 31 of the Vienna Convention requires an interpretation in good faith in accordance with the ordinary meaning to be given to the terms of the agreement in their context and in the light of the object and purpose of the agreement.

<sup>67</sup> *The New Shorter Oxford English Dictionary* (4th ed. 1993), p. 2393 (Exhibit US-20).

and copyright piracy on a commercial scale,” but not in others, does not fulfill the obligations in Article 61.

## 2. “Wilful Trademark Counterfeiting or Copyright Piracy”: The Subject Matter of the Obligation

### *Trademark counterfeiting*

96. The term “trademark counterfeiting” is not defined in the TRIPS Agreement, although other provisions in the TRIPS Agreement help to clarify its meaning in Article 61. Article 15.1 of the TRIPS Agreement provides minimum standards for the subject matter of a trademark.<sup>68</sup> The rights required to be conferred by a trademark are set out in TRIPS Agreement Article 16.<sup>69</sup>

97. The ordinary meaning of “counterfeit,” when used as an adjective, is “[m]ade in imitation, not genuine.”<sup>70</sup> As a verb, it means to “[i]mitate (an action, thing, etc.) with intent to deceive [or] [m]ake in fraudulent imitation of something else; devise (something spurious) and pass it off as genuine.”<sup>71</sup>

98. Footnote 14 to Article 51 of the TRIPS Agreement (on “Suspension of Release by Customs Authorities”) offers additional insight as to the meaning of the noun “counterfeiting” in the context of the term “trademark counterfeiting,” by setting out a definition of a term, “counterfeit trademark goods,” that uses “counterfeit” as an adjective:<sup>72</sup>

“counterfeit trademark goods” shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation.”

99. This definition makes clear that in order to be considered “counterfeit,” the goods, or their packaging, must bear, without authorization, a trademark that is indistinguishable in its

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<sup>68</sup> Article 15.1 provides that “any sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings, shall be capable of constituting a trademark.”

<sup>69</sup> Article 16 of the TRIPS Agreement obligates Members to confer on the owner of a registered trademark, “the exclusive right to prevent all third parties not having the owner’s consent from using in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion.”

<sup>70</sup> *The New Shorter Oxford English Dictionary* (4th ed. 1993), p. 527. (Exhibit US-21).

<sup>71</sup> *The New Shorter Oxford English Dictionary* (4th ed. 1993), p. 528. (Exhibit US-21).

<sup>72</sup> The chapeau to the footnote provides that the definitions in the footnote apply “for purposes of this *Agreement*” (emphasis added).

“essential aspects” from, or identical to, a registered trademark. Such goods are considered to infringe the rights of the owner of the trademark in question.

100. Putting these definitional elements together, the term “trademark counterfeiting” in Article 61 can be properly understood as including the actions of using in the course of trade a trademark which is identical to, or cannot be distinguished in its essential aspects from, a validly registered trademark.

101. The United States notes that although it has raised other concerns with respect to Articles 213 through 215 of the Criminal Law, the United States does not claim in this dispute that the coverage of these provisions fails to cover the full extent of the term “trademark counterfeiting.”

#### *Copyright piracy*

102. The term “copyright piracy” likewise is not defined in the TRIPS Agreement, although other TRIPS Agreement provisions help clarify its meaning.

103. As a preliminary matter, Section 1 in Part II of the TRIPS Agreement (“Copyright and Related Rights”) provides certain minimum standards for the availability, scope, and use of copyright and related rights in the legal regimes of WTO Members. Specifically, Article 9.1 of the TRIPS Agreement provides, *inter alia*, that all WTO Members shall comply with Articles 1 through 21 of the Paris Act of July 24, 1971 of the *Berne Convention for the Protection of Literary and Artistic Works*. Further, Articles 14.1 and 14.2 of the TRIPS Agreement require Members to give performers, *inter alia*, the possibility of preventing certain acts, and to give producers of phonograms (sound recordings) the right to authorize or prohibit the direct or indirect reproduction of their sound recordings.

104. The scope of the word “copyright” in the term “copyright piracy” can be understood more fully by reference to footnote 14 to Article 51 of the TRIPS Agreement. Specifically, footnote 14 provides a definition for the term “pirated copyright goods”:

“Pirated copyright goods” shall mean any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.

105. The phrase “copyright piracy” (in Article 61) and “pirated copyright goods” (in footnote 14) are related linguistically.<sup>73</sup> Moreover, a “pirated good” is one kind of physical product of “piracy.” Therefore, the context provided by the reference to “a related right” in footnote 14 confirms that the term “copyright piracy” in Article 61 must be understood to extend to piracy that infringes either a copyright or a related right (such as the rights of performers and producers of phonograms).

106. The United States notes that although it has raised other concerns with respect to Articles 217 and 218 of the Criminal Law, the United States does not claim in this dispute that the coverage of these provisions fails to cover the full extent of the term “copyright piracy.”

### *Wilful*

107. Under Article 61 of the TRIPS Agreement, Members must provide for criminal procedures and penalties to be applied in cases of “wilful” trademark counterfeiting and copyright piracy. In general, the term “wilful” refers to the particular state of mind requirement for a crime in many countries. The interpretation of the term “wilful” is not at issue in this dispute, however. The United States does not claim, in this dispute, that any state of mind requirements contained in Articles 213-219 of the Criminal Law and the December 2004 and April 2007 judicial interpretations are inconsistent with China’s WTO obligations.

### **3. “On a commercial scale”: A Limitation on the Obligation in Article 61**

108. As explained in the two previous subsections, the first sentence of Article 61 of the TRIPS Agreement sets a minimum requirement – Members “at least” must provide criminal procedures and penalties for infringements of certain subject matter (“wilful trademark counterfeiting or copyright piracy”).<sup>74</sup> However, Article 61 does not extend to all such counterfeiting or piracy. A WTO Member may (if it chooses to do so) exclude from criminal procedures and penalties wilful counterfeiting or piracy that does not take place “on a commercial scale.” As will be seen in section IV.C below, however, China’s criminal thresholds do not ensure that criminal procedures and penalties apply to all classes of wilful counterfeiting and piracy on a commercial scale.

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<sup>73</sup> The same linguistic relationship between “copyright piracy” and “pirated copyright goods” is found in the French and Spanish versions of the TRIPS Agreement. In French, the terms are “piratage portant atteinte à un droit d’auteur” and “marchandises pirates portant atteinte au droit d’auteur” respectively; and in Spanish they are “piratería lesiva del derecho de autor” and “mercancías pirata que lesionan el derecho de autor” respectively.

<sup>74</sup> As the foregoing discussion indicates, it appears unlikely that the phrase “wilful trademark counterfeiting or copyright piracy” will engender interpretive questions in this dispute. For the sake of brevity, this submission will therefore sometimes use instead the shorter phrase “counterfeiting or piracy”; it should be understood that this is simply an abbreviation for the longer phrase “wilful trademark counterfeiting or copyright piracy” that is contained in Article 61 of the TRIPS Agreement.

109. The ordinary meaning of the word “scale” varies depending on the context. Here, the context indicates that “scale” means “relative magnitude or extent” or “degree; proportion.”<sup>75</sup> It also can encompass “a standard of measurement, calculation, or estimation.”<sup>76</sup> It follows that an assessment of the “scale” of counterfeiting or piracy is an assessment of the magnitude, extent, or degree of counterfeiting or piracy, relative to some standard. Article 61 provides that standard by use of the word “commercial,” whose ordinary meaning is “pertaining to, or bearing on commerce,” “interested in financial return,” “likely to make a profit,” or “regarded as a mere matter of business.”<sup>77</sup>

110. Two points bear emphasizing here. *First*, by using the term “commercial *scale*,” the TRIPS Agreement makes clear that WTO Members must criminalize acts that reach a certain extent or magnitude; in other words, that WTO Members must do so even where there is no evidence that the infringer has a commercial motive or purpose. *Second*, in using the term “*commercial scale*,” the TRIPS Agreement draws a link to the commercial marketplace – where those “interested in a financial return” or engaged in “a matter of business” operate, and where business-minded IPR infringers take the fruits of their counterfeiting or piracy.<sup>78</sup> Thus, the concept of “commercial scale” extends both to those who engage in commercial activities in order to make a “financial return” in the marketplace, and who are, by definition, therefore operating on a commercial scale, as well as to those whose actions, regardless of motive or purpose, are of a sufficient extent or magnitude to qualify as “commercial scale” in the relevant market. That said, it is the former activity that forms the focus of this submission: section IV.C below demonstrates how the Chinese measures at issue in this dispute exclude many classes of commercial piracy and counterfeiting in China’s markets from the possibility of criminal prosecution for trademark and copyright infringement.

### **C. Contrary to Article 61, China’s Measures Fail to Provide for the Application of Criminal Procedures and Penalties in Cases of Wilful Trademark Counterfeiting and Copyright Piracy on a Commercial Scale**

111. There is no doubt that China’s Criminal Law criminalizes *some* counterfeiting and piracy on a commercial scale. However, this does not establish that China is in compliance with its WTO obligations. To the contrary, China must criminalize *all* wilful counterfeiting and piracy on a commercial scale to meet its obligations under Article 61, first sentence. China fails to do so, because its criminal thresholds create a safe harbor, preventing criminal procedures and

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<sup>75</sup> *The New Shorter Oxford English Dictionary* (4th ed. 1993), p. 2701 (Exhibit US-22).

<sup>76</sup> *Id.*

<sup>77</sup> *The New Shorter Oxford English Dictionary* (4th ed. 1993), p. 451 (Exhibit US-23).

<sup>78</sup> The term “commercial” is also relative in the following sense: there is not a single market for all trademarked and copyrighted products. For example, the marketplace for designer watches is not necessarily the same as the marketplace for personal care products. Thus, what is “*commercial scale*” will necessarily vary from situation to situation. As will be discussed in section IV.C.1 below, this distinction is meaningful when evaluating China’s criminal thresholds.

penalties from being available for all classes of commercial scale counterfeiting and piracy. This subsection describes a number of situations that fall within these unfortunate safe harbors. This Panel should conclude that China has not met its Article 61 obligations, because China's thresholds ensure that criminal procedures and penalties are *not* available for these classes of commercial scale counterfeiting and piracy.

112. There are two fundamental problems: *First*, China's thresholds are set at such a level, and calculated in such a way, that they do not permit prosecution or conviction of sales activity involving values or volumes that are below the thresholds but are still "on a commercial scale." By their nature, the criminal thresholds will capture commercial IPR-infringing activity happening above the thresholds, but they will never capture such activity *below* the thresholds.

113. *Second*, through China's reliance on value and volume thresholds tied to finished goods, China's criminal thresholds ignore other indicia of commercial scale operations, such as the presence of unfinished products and fake packaging. Indeed, the breadth of the term "on a commercial scale" presumes that a wide range of considerations should be probative of "commercial scale," but China's rigid criminal thresholds preclude their use.

114. As will be explained below, pirates and counterfeiters can and do structure their commercial operations to ensure that they are operating within the safe harbor created by China's thresholds. At any given inspection, an enterprise can ensure that it has insufficient inventory or has insufficient recorded turnover (by, for example, keeping no records) to meet any of China's criminal thresholds for trademark counterfeiting or copyright piracy.

115. This discussion is presented in three subsections below. In subsections 1 and 2, we evaluate the thresholds for trademark counterfeiting and copyright piracy in China's Criminal Law. In subsection 3, we feature a report prepared by right holder groups in the course of their IP enforcement efforts in China. Their results cover several hundred enforcement actions in four major Chinese cities – the key findings of which confirm that commercial establishments tailor their behavior to China's enforcement thresholds, thereby escaping criminal prosecution and conviction.

### **1. China's Rigid Criminal Thresholds Are Structured so as to Exclude Many Classes of Commercial Scale Counterfeiting and Piracy**

116. The first set of problems with China's criminal thresholds arises from their structure. Specifying certain levels of "illegal business volume," "illegal gains," or numbers of "copies" that must be met before criminal prosecution or conviction is possible, and then, in addition, dictating restrictive calculations of those thresholds, eliminates whole classes of commercial scale counterfeiting and piracy from risk of criminal prosecution and conviction.



**a. Trademark counterfeiting**

*Article 213 of the Criminal Law*

117. Under Article 1, first paragraph, item 1, of the December 2004 JI, counterfeiting that involves use of an identical trademark<sup>79</sup> on the same kind of commodities must meet one of the following two thresholds before criminal procedures or penalties can be available: an “illegal business volume” of more than RMB 50,000 (USD \$6,925), or “illegal gains” of more than RMB 30,000 (USD \$4,155).

118. Turning first to the “illegal business volume” threshold, Article 12 of the December 2004 JI makes clear as an initial matter that meeting this threshold requires finding evidence of “manufacture, storage, transportation, or sales” of infringing products. In addition, the “volume” realized through these activities must exceed a monetary threshold of RMB 50,000 (USD \$6,925). If this activity does not reach the required “illegal business volume” threshold, it is completely shielded from the possibility of criminal counterfeiting prosecution or conviction that would be triggered by this test. However, the activity of businesses that supply markets through “manufacture, storage, transportation, or sales” is “commercial activity.” As noted above, “commercial” scale will vary by market, and thus by the behavior of those participating in each such market. The extent or magnitude of “manufacture, storage, transportation, or sales,” when carried out by businesses, is “on a commercial scale” because it is these kinds of activities, when undertaken by businesses for a particular market, that provide a basis for assessing what constitutes “commercial scale” for that market. By setting an exemption from criminal prosecution and conviction for counterfeiting activities when there is less than RMB 50,000 in “illegal business volume,” China has exempted businesses from criminal procedures and penalties for counterfeiting where those businesses’ activity of “manufacture, storage, transportation, or sales” realizes less than that amount – even though such business activity, as explained above, is on a “commercial scale,” and for that reason the counterfeiting or piracy is on a “commercial scale.”

119. Moreover, the calculation methodology required for such “illegal business volume” creates added barriers to prosecution of commercial scale counterfeiting and piracy (whether carried out by businesses or others). Pursuant to Article 12 of the December 2004 JI, “illegal business volume” refers to the value of the products in question, as measured “according to the prices at which such products are actually sold” or “according to the labeled prices.” Thus, the “illegal business volume” calculated under Article 1, first paragraph, item 1 of the December 2004 JI is *not* a calculation of the value of the legitimate non-infringing goods with which the counterfeit goods compete; instead, it is a calculation based on the prices through which the

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<sup>79</sup> Although this discussion uses the terms as written in the Criminal Law, the United States recognizes that Article 8 of the December 2004 JI expands the definition of both “use” and “identical” in this context.

counterfeit goods undercut legitimate merchandise.<sup>80</sup> Thus, by virtue of Article 12, the value of “illegal business volume” for a quantity of counterfeit merchandise can be far less than the value of an equivalent quantity of legitimate merchandise. For example, a recent news report cited counterfeit Parker brand pens as selling for \$0.10 wholesale when they retail for \$8 in China.<sup>81</sup> This calculation method adds an additional margin of comfort for counterfeiters and pirates, who can conduct significant business without fear of criminal sanction under China’s criminal thresholds.

120. The disparities in pricing between legitimate and counterfeit goods also become clear in China’s court proceedings. In one case, a Chinese court valued counterfeit Zippo lighters at approximately 37 cents – slightly more than one percent of their estimated legitimate market price in China of \$25.<sup>82</sup> According to a report in the *Wall Street Journal*:

China values [seized knockoffs] at the price the counterfeiter meant to sell them at, not at the retail price that legitimate versions go for. That part of Chinese law has important implications for companies hoping to put counterfeiters behind bars, because the value of the seized products, when calculated at Chinese prices, often falls well below the 50,000 yuan (about \$6,240) threshold for criminal prosecution.

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In Zippo’s case, the cheapest genuine lighters available in China that are similar to the ones involved in the Wenzhou factory case, sell for around \$25, according to the company. A couple of buyers testified to the court that the factory manager’s price was a fraction of that: about 37 cents.<sup>83</sup>

121. In addition, for at least some types of products,<sup>84</sup> many commercial activities take place on a scale where the value of *legitimate* goods involved is less than RMB 50,000 (USD \$6,925)

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<sup>80</sup> Article 12 appears to provide an exception to this principle when “actual prices are impossible to be ascertained”; in such cases the “median market price” of such products should be used. However, it is not clear what that “middle market price” refers to. And in any case, that exception is unavailable in circumstances where the actual price of the infringing good can be determined.

<sup>81</sup> Don Lee, “Fake pens write their own ticket,” *Los Angeles Times*, (December 17, 2007), available at <http://www.latimes.com/business/la-fi-fakepens17dec17,0,6138708,full.story?coll=la-home-business> (“At some wholesale markets in Guangdong province, counterfeit Parker products that retail for \$8 each can be bought for about a dime.”) (Exhibit US-24).

<sup>82</sup> Nicholas Zamiska, “A Question of Value; Zippo Case Sparks Clash: Does China’s Low Valuation of Fake Goods Coddle Counterfeiters?” *Wall Street Journal*, (Eastern edition) (June 2, 2006), at p. A.13. (Reporting that the difference in valuation “came down to about \$24.63 – the gap between the roughly \$25 that Zippo said a knockoff was worth versus the 37 cents or so the judge said it would fetch.”) (Exhibit US-25).

<sup>83</sup> *Id.*

<sup>84</sup> *See, e.g.*, para. 119-120, *supra*.

(the “illegal business volume” threshold). This is particularly true for so-called “fast-moving consumer goods” (FMCG) such as personal care products or small electronics, which tend to sell quickly, but at low prices.<sup>85</sup> It follows that commercial scale buying and selling activities involving *counterfeit* goods of these types will involve values below that threshold – indeed, because of the way in which Article 12 computes “illegal business volume,” the values involved may fall considerably short, despite the counterfeiting and piracy activities in question being of commercial scale.

122. Indeed, the Chinese market, including the market for many copyright and trademark bearing goods and services, is fragmented and characterized by a profusion of small manufacturers, middlemen, and distributors. For example, a single wholesale mall in Yiwu, China houses some 30,000 stores, many of them in small 10-by-15 foot stalls.<sup>86</sup> Retail establishments come in many different sizes and are widely dispersed across China.<sup>87</sup> Another shopping mall in Luohu Commercial City spans six floors of small stores and offers “counterfeit goods at bargain prices.”<sup>88</sup> In spite of the recent growth of large retailers in China, much retail commerce appears to still be conducted through small outlets, and consequently beyond the reach of criminal sanctions due to the criminal thresholds.<sup>89</sup>

123. The RMB 30,000 (USD \$4,155) “illegal gains” or “amount of profit” threshold in Article 1, first paragraph, item 1, does not solve the problem created by the “illegal business volume” threshold, for at least two reasons. *First*, as noted in paragraph 109 above, the definition of “commercial” in “commercial scale” includes “interested in financial return” and

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<sup>85</sup> According to a Chinese news source, “[f]ast-moving consumer goods (FMCG), also known as consumer packaged goods, are products that have a quick turnover and relatively low cost such as yogurt and toothpaste. Consumers generally put less thought into the purchase of FMCG than they do for other products. FMCG are sold mainly at grocery stores, convenience stores, supermarkets, hypermarkets and specialty stores. They may also include pharmaceuticals and consumer electronics.” “Fast Moving Consumer Goods Sales Up in China,” *Xinhua News Agency* (March 30, 2007), available at <http://www.china.org.cn/english/BAT/205362.htm>. (Exhibit US-26) See also “China’s Pirates,” *Business Week*, (June 5, 2000), available at [http://www.businessweek.com/2000/00\\_23/b3684007.htm](http://www.businessweek.com/2000/00_23/b3684007.htm) (discussing counterfeiting of various consumer products) (Exhibit US-27).

<sup>86</sup> See Don Lee, “30,000-Store Wholesale Mall Keeps China Competitive,” *San Francisco Chronicle*, (December 8, 2006), available at <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2006/12/08/MNG8TMRPV81.DTL&feed=rss.news> (Exhibit US-28).

<sup>87</sup> See A.T. Kearney, 2005 Global Retail Development Index: Destination China, available at [http://www.atkearney.com/shared\\_res/pdf/GRDI\\_2005\\_China.pdf](http://www.atkearney.com/shared_res/pdf/GRDI_2005_China.pdf) (Exhibit US-29).

<sup>88</sup> See Kathleen Kingsbury, “In China, There’s Priceless, and for Everything Else, There’s Cash,” *Time*, (July 13, 2007), available at <http://www.time.com/time/world/article/0,8599,1643445,00.html>. (Exhibit US-30). Moreover, in some parts of China, “entire areas have become famous for selling counterfeit goods.” See Mark Klenman, “Chasing copycats in a tiger economy,” *The Daily Telegraph*, (June 9, 2007), available at <http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2007/06/09/cnchina109.xml> (“Wenzhou and Yiwu, two cities in the eastern province of Zhejiang, have long been regarded as a hub for product piracy, selling anything from fake Gillette razors to imitation Procter & Gamble personal care brands.”) (Exhibit US-31).

<sup>89</sup> See, e.g., section IV.C.3 *infra*.

engaged in a “matter of business.” Accordingly, a business should *not* have to be profitable in order to be viewed as operating on a “commercial scale.” Requiring a minimum profit level of RMB 30,000 thus will not capture all relevant counterfeiting activity.

124. *Second*, because the “illegal gains” threshold requires a calculation that shows profits,<sup>90</sup> *i.e.*, revenue minus expenses, of at least RMB 30,000, the revenue realized must exceed RMB 30,000. Since the revenue calculation in turn is based on sales at prices likely to be deeply discounted to undercut sales of legitimate goods, the situation replicates the problems described in paragraph 119 above.<sup>91</sup>

125. Moreover, the “illegal gains” threshold for many low-margin products is in fact *higher* than the RMB 50,000 (USD \$6,925) “illegal business volume” threshold. Actual mark-ups vary for different products and in different phases of the supply chain. Some counterfeit products reportedly command large profit margins, while others undercut legitimate products with low prices and, consequently, low margins.<sup>92</sup> The lower the profit margin is for a product, the higher the volume of products needed to meet the “illegal gains” threshold. For example, goods with less than a 150% markup at retail have to generate sales of more than RMB 50,000 to reach RMB 30,000 in gains (profits). This is because for a product marked-up at 150%, RMB 50,000 in sales equates to RMB 20,000 in costs and thus RMB 30,000 in profit. For a product marked up at less than that, *more sales* are necessary to reach RMB 30,000 in profit. For instance, with a 125% mark-up, RMB 50,000 in sales equates to approximately RMB 22,220 in costs and thus to less than RMB 30,000 in profit.

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<sup>90</sup> The term “illegal gains” is defined by the Supreme People’s Court as “amount of profits obtained.” See footnote 19, *supra*.

<sup>91</sup> Indeed, even China appears to recognize (albeit tacitly) that the threshold in Article 1, first paragraph, item 1, for criminal prosecution or conviction in situations involving one or two trademarks is too high. Article 1, first paragraph, item 2, of the December 2004 JI, which applies when more than two trademarks are forged, sets its thresholds lower than item 1 does, requiring an “illegal business volume” of more than RMB 30,000 or “illegal gains” of more than RMB 20,000. There is, however, no rationale for distinguishing the scale of commerce in counterfeit goods bearing one (or two) forged trademarks, and the scale of commerce in a collection of counterfeit goods that bear three or more forged marks. For example, a garment with a fake label and two fake logos will compete on an equal footing with a garment bearing one counterfeit logo along with the counterfeit label. The fact that China has set the criminal threshold at a lower level in the 3-trademark situation underscores the fact that the threshold for the 1-or-2-trademark situation is too high.

<sup>92</sup> See “China’s Pirates,” *Business Week*, (June 5, 2000), available at [http://www.businessweek.com/2000/00\\_23/b3684007.htm](http://www.businessweek.com/2000/00_23/b3684007.htm). (Reporting that “Bangkok-based market researcher Automotive Resources estimates that profit margins on fake Chinese-made shock absorbers can reach 80%, vs. 15% for the real thing. In high-volume businesses like oil filters for a Mercedes, counterfeiters undercut legitimate products by as much as 80% less than the \$24 for an authentic filter.”) (Exhibit US-27).

*Article 214 of the Criminal Law*

126. Under Article 2, first paragraph, of the December 2004 JI, the sale of goods bearing counterfeit trademarks must meet a threshold of RMB 50,000 (USD \$6,925) in “amount of sales” before criminal procedures or penalties can be available.

127. Pursuant to Article 9 of the December 2004 JI, the “amount of sales” refers to “all the illegal income gained or due to be gained from selling the goods that bear counterfeit trademarks.” By only focusing on the income gained or due to be gained from sales of the counterfeit goods, the “amount of sales” value threshold appears to apply to an even smaller subset of transactions than the “illegal business volume” threshold under Article 213 (which includes other activities, such as the manufacture, storage, and transportation of infringing goods). Moreover, the “amount of sales” threshold under Article 214 is set at an even higher threshold than the “illegal business volume” threshold for counterfeiting more than two marks under Article 213. Accordingly, the problems demonstrated with the “illegal business volume” threshold in Article 213 (paragraphs 118-122 above) are magnified.

128. The calculation of “amount of sales” under Article 214 only compounds these problems. Under the December 2004 JI, meeting the “amount of sales” threshold for Article 214 appears to be dependent on the revenue derived from counterfeiters’ actual or potential sale of products.<sup>93</sup> Therefore, the price at which a counterfeiter chooses to sell his counterfeit products can significantly affect whether the “amount of sales” will remain below the threshold. If the counterfeit products are sold at a lower price than that of the comparable legitimate product – which is often the case – a higher “amount of sales” of products bearing counterfeit marks would be needed to trigger Article 214, thereby increasing the likelihood that sales of counterfeit products on a commercial scale would be exempt from criminal prosecution or conviction.

129. Indeed, this price differential is an illustration of the fundamental problem with using the price of the infringing good, rather than the price of the infringed good in these kinds of calculations. To draw on an example from a news account referenced above,<sup>94</sup> if a counterfeit copy of a brand-name lighter were sold in China’s department stores for \$25, the sale of approximately 275 lighters would meet the threshold. Yet, if a counterfeiter prices his fake version at 37 cents, as occurred in the example, the counterfeiter could sell approximately 18,700 counterfeit lighters in his store and still fall below the Article 214 threshold of RMB 50,000 in “amount of sales.”

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<sup>93</sup> See December 2004 JI, article 9.

<sup>94</sup> See Nicholas Zamiska, “A Question of Value; Zippo Case Sparks Clash: Does China’s Low Valuation of Fake Goods Coddle Counterfeiters?” *Wall Street Journal* (Eastern edition) (June 2, 2006), p. A.13 (Exhibit US-25).

*Article 215 of the Criminal Law*

130. Under Article 3, first paragraph, item 1, of the December 2004 JI, the forging or unauthorized reproduction of another’s registered trademark must meet one of the following three thresholds before criminal procedures or penalties can be available: an “illegal business volume” of more than RMB 50,000 (USD \$6,925); “illegal gains” of more than RMB 30,000 (USD \$ 4,155); or 20,000 copies. Because the “illegal business volume” and “illegal gains” thresholds are the same as for Article 213, the problems identified with respect to those thresholds apply with similar force.

131. The copy threshold of 20,000 likewise provides no means to capture all commercial scale counterfeiting. To the contrary, it provides an exceedingly high threshold. A factory could store 19,999 counterfeit logos<sup>95</sup> of a designer brand, and still evade the application of the Article 215 copy threshold.

*Conclusion*

132. As demonstrated above, the thresholds for criminal prosecution or conviction of trademark crimes in China’s Criminal Law shield many classes of counterfeiting on a commercial scale from criminal procedures and penalties. Since Article 61 of the TRIPS Agreement requires China to provide for criminal procedures and penalties for all cases of wilful trademark counterfeiting on a commercial scale, China has not lived up to these obligations.

**b. Copyright piracy**

*Article 217 of the Criminal Law*

133. Under Article 5, first paragraph, of the December 2004 JI, copyright or related rights infringement committed for the purpose of making profits must meet one of three thresholds before criminal procedures or penalties can be available under Article 217: an “illegal business volume” of more than RMB 50,000 (USD \$6,925); “illegal gains” of more than RMB 30,000 (USD \$4,155); or 1,000 copies.<sup>96</sup> (The April 2007 JI amended the December 2004 JI by providing a copy threshold of 500 copies for Article 217 violations.)

134. The RMB 50,000 (USD \$6,925) “illegal business volume” threshold presents analogous problems to Articles 213 and 215 (paras. 118-122 and 130-131 *supra*). The December 2004 JI’s method for computing “illegal business volume” can require large quantities of pirated goods to

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<sup>95</sup> Under Article 12 of the December JI, a “copy” for the purposes of Article 3 refers to “one representation of the complete logo of the trademark.”

<sup>96</sup> The requirement of a “profit making purpose” in itself may raise concerns under Part III of the TRIPS Agreement, but the United States is not pursuing them in this dispute.

meet the threshold, thereby shielding substantial piracy operations from the threat of criminal sanction under the thresholds. Similar to Articles 213 and 215, the “illegal business volume” calculated under Article 5, first paragraph, of the December 2004 JI is a calculation based on the prices through which the pirated goods undercut legitimate goods. Indeed, pirated copies of products such as DVDs, software, music CDs, and popular book titles often are sold at lower prices than the legitimate versions.<sup>97</sup>

135. For example, according to news reports, optical discs containing pirated movies may sell for prices ranging from RMB 5 to RMB 10 (approximately USD \$0.70 to \$1.40) while legitimate copies are sold for higher amounts, ranging from RMB 15 to 45.<sup>98</sup> Indeed, when the popular book “Harry Potter and the Half-Blood Prince” was released around the world in 2005, unauthorized pirate copies were available for 20 yuan (¥1.40) at the same time that legitimate copies were sold in Beijing for the equivalent of ¥11.40.<sup>99</sup>

136. Similarly, a recent news account reported that legitimate copies of Sony’s “Spider Man 2” were selling from \$4.68 (approximately RMB 34), while pirate copies of the newer “Spider Man 3” were available for \$2 (approximately RMB 14). At those price points, it would take approximately 1,470 pirated products valued at the legitimate price for “Spider Man 2” to meet the RMB 50,000 “illegal business volume” threshold. Even more strikingly, authorities would have to seize more than 3,570 pirate copies of the *newer* “Spider Man 3” in order to satisfy that threshold.

137. As these examples indicate, the “illegal business volume threshold” can shelter commercial scale activities from criminal prosecution, regardless of how it is calculated. Sales activities involving *legitimate* DVDs, software, music CDs, or books, can take place beneath RMB 50,000 (the “illegal business volume” threshold). For example, as noted in paragraph 122

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<sup>97</sup> See, e.g., Wu Yong and Wang Ziyi, “Crackdown on pirated goods sees results,” *China Daily*, (February 6, 2006), available at [http://www.chinadaily.com.cn/english/doc/2006-02/06/content\\_517377.htm](http://www.chinadaily.com.cn/english/doc/2006-02/06/content_517377.htm) (quoting a pirated products dealer as stating “there is a big gap in the prices between legal and pirated products . . . I don’t think customers will abandon pirated products as their price is five to 10 times cheaper while the quality is similar.”) (Exhibit US-32).

<sup>98</sup> See, e.g., Mary-Anne Toy, “Hollywood takes on Chinese fake DVDs,” *Sydney Morning Herald*, (January 27, 2007), available at <http://www.smh.com.au/news/world/hollywood-takes-on-chinese-fake-dvds/2007/01/26/1169788693472.html#> (Exhibit US-33); Dawn C. Chmielewski, “Film not out yet on DVD? You can find it in China,” *Los Angeles Times*, (November 12, 2007), available at <http://www.latimes.com/technology/la-fi-dvd12nov12,1,2397358,full.story?coll=la-headlines-technology> (reporting that pirated DVDs of new movies and televisions shows sold for “as little as \$1.33”) (Exhibit US-34); see also Wu Yong and Wang Ziyi, “Crackdown on pirated goods sees results,” *China Daily*, (February 6, 2006), available at [http://www.chinadaily.com.cn/english/doc/2006-02/06/content\\_517377.htm](http://www.chinadaily.com.cn/english/doc/2006-02/06/content_517377.htm) (prices of pirated computer games, DVDs, and some software products in Shenyang, China are under RMB 10 (US\$ 1.25) while the legal ones cost over RMB 100 (US \$12)) (Exhibit US-32).

<sup>99</sup> See “Pirate Chinese Potter books sold,” *BBC News*, (August 1, 2005), available at <http://news.bbc.co.uk/1/hi/entertainment/arts/4734161.stm> (Exhibit US-35).

above, retail commerce in China is often conducted through small outlets that do not have large inventories of goods. In that environment, and given the favorable economics of “just-in-time” delivery, it is not difficult to conceive of a legitimate supply chain comprised of commercial operations dealing in legitimate CDs, DVDs, software titles, or popular books that operate with inventories or turnover of less than RMB 50,000.<sup>100</sup> If commercial activities involving legitimate DVDs, CDs, software, or books would not meet the “illegal business volume” threshold, commercial scale activities involving *pirated* goods will be far less likely to meet it.

138. The RMB 30,000 (USD \$4,155) “illegal gains” threshold in Article 5, first paragraph, of the December 2004 JI also presents real barriers to capturing all commercial scale piracy. The problems posed directly parallel the problems in the counterfeiting context described in paragraphs 123-125 above. In addition, the burgeoning availability of music and movies on the Internet is eliminating more and more commercial scale piracy above the “illegal gains” threshold. As prices charged for copies on the Internet drop, assuming that the pirate’s cost remains steady, the profit made on each copy will also drop, thus requiring proof of even more pirate copy sales to garner the profits necessary to reach the “illegal gains” threshold.

139. Likewise, despite a new, lower threshold of 500 copies under Article 217, the copy threshold continues to exclude acts of commercial scale piracy. For example, if a copyright pirate makes 499 reproductions or a retailer stocks 499 copies in a store, they could not be prosecuted or convicted under Article 217 of the Criminal Law based on the copy threshold, because the relevant threshold of 500 copies provided by the April 2007 JI would not be met. (Section IV.C.3 below provides a vivid illustration of how these kinds of thresholds shield commercial scale piracy from criminal prosecution.)

140. Similarly, if a factory owner, wholesaler, or retailer is caught with pirated products, and the “illegal business volume” at issue amounts to less than RMB 49,999, criminal prosecution or conviction under Article 217 of the Criminal Law would not be possible. Indeed, if hundreds of small commercial operations were located in a seven story building in Beijing, and each of those operations stocked or reproduced pirated products – but each one was also careful not to store more than 499 pirated products or more than RMB 49,999 of pirated products at any time (while also ensuring that no records were kept), then China’s Criminal Law would exclude the entire building of commercial establishments from criminal prosecution or conviction. Clearly, China’s use of criminal thresholds ensures that there will be widespread acts of commercial scale piracy that are not subject to criminal penalties and procedures.

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<sup>100</sup> See, e.g., “IPR Special: Piracy problem,” *China Daily*, (July 4, 2005), available at [http://www.chinadaily.com.cn/english/doc/2005-07/04/content\\_456767.htm](http://www.chinadaily.com.cn/english/doc/2005-07/04/content_456767.htm) (Noting that “market insiders say cracking down on piracy has become increasingly difficult, as the illegal publishers tend to work in small groups, produce in small quantities, and keep relocating their bases.”) (Exhibit US-38).



*Article 218 of the Criminal Law*

141. Under Article 6 of the December 2004 JI, specific sales of infringing reproductions for the purpose of making profits must meet a threshold of RMB 100,000 (USD \$13,850) in “illegal gains” before criminal procedures or penalties can be available under Article 218. The problems identified in the paragraphs above apply with even greater force in this case. As the “illegal gains” threshold of RMB 100,000 is more than *three* times the RMB 30,000 threshold for Article 217, it will insulate a much larger amount of pirate activity.

*Conclusion*

142. For the reasons given above, the thresholds for criminal prosecution and conviction applied to the copyright and related rights crimes in China’s Criminal Law omit various classes of piracy on a commercial scale. As a result, China does not provide criminal procedures and penalties to be applied to all cases of wilful copyright piracy on a commercial scale. China is therefore not in compliance with its obligations under Article 61, first sentence, of the TRIPS Agreement.

**2. China’s One-Size-Fits-All Regime of Criminal Thresholds Also Fails to Take Account of Other Indicia That Show Commercial Scale Counterfeiting and Piracy**

143. The second set of problems with China’s criminal thresholds stems from the fact that Chinese authorities must rely on this very limited set of one-size-fits-all numerical tests to find commercial scale counterfeiting and piracy that can be subject to criminal prosecution or conviction. By focusing solely on business volume, copy, and profit thresholds that can only be met by counting finished goods, China’s criminal thresholds require Chinese law enforcement officials to disregard other specific, telling indicia of commercial scale piracy and counterfeiting – from physical evidence to consideration of the impact the piracy or counterfeiting has on the commercial marketplace and by extension, right holders.

144. As explained in detail in section III.B above, Chinese authorities can only prosecute and convict counterfeiters and pirates for their intellectual property crimes by providing evidence that their activities meet the minimum “illegal business volume,” “illegal gains,” “amount of sales” or “copy” thresholds set by China’s law. This constrained system ignores a range of probative evidence demonstrating the existence of commercial scale operations not captured using China’s criminal thresholds.

145. For example, China’s thresholds rely solely on *finished* counterfeit or pirated goods to determine whether the thresholds are met; they do not consider *components* of counterfeit or

pirated products.<sup>101</sup> These components include packaging used for pirated CDs or DVDs, fabrics used for designer products, cartridge housings for video games, and other materials used to make counterfeit products. Finding such materials on site during a raid provides compelling evidence of the existence of a commercial scale operation. However, the thresholds effectively require Chinese authorities to turn a blind eye to components or unfinished products as evidence of commercial scale piracy and counterfeiting.

146. Data collected in the course of Nintendo of America’s anti-counterfeiting campaign in China confirms this problem.<sup>102</sup> The data indicate that, in many instances, a meaningful proportion of the seizures includes components of finished video game products, such as cartridge housings, cases and packaging, and other related materials and implements, such as hardware and manuals.

147. Moreover, China’s thresholds would not capture other reliable indicia of a commercial scale pirating or counterfeiting operation, such as “worn molds” for pressing pirated products or counterfeit marks, or other materials or implements indicating the existence of a professional piracy or counterfeiting operation.

148. Fixed numerical factors based on prices, amount of sales, copies, or profits also fail to capture “commercial scale” in certain market situations. For example, the piracy of a high-value niche market item, such as a specialized software application (e.g., tailor-made for increasing the efficiency of automated production equipment) could involve commercial scale activity based on the production and sale of a small number of pirated copies at low prices, given the market size. Yet this situation would escape prosecution or conviction, given China’s criminal thresholds.<sup>103</sup>

149. Additionally, the Internet and digital technological advancements can permit commercial piracy and counterfeiting that creates major damage to a market, but the numerical thresholds can stymie criminal prosecution for infringement in these cases. For example, advances in digital technology are enabling more copyrighted material to be compressed into one disc. In contrast to traditional DVDs which can hold one movie or two to three episodes of a TV show, certain “HDVDs” are sold in China’s markets with the ability to hold “up to ten episodes of a TV series

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<sup>101</sup> However, these items are not used to assess whether criminal prosecution is appropriate. When authorities encounter a factory with a below-threshold number of finished infringing products, but an array of components that strong evidence of a commercial counterfeiting or piracy operation, criminal prosecution and conviction should be possible.

<sup>102</sup> See Letter from Nintendo of America to Office of the United States Trade Representative on Nintendo’s Anti-Piracy Program in China (January 25, 2008), at p. 3 (Exhibit US-36).

<sup>103</sup> See, e.g., Kristi Heim, “Inside China’s teeming world of fake goods,” *Seattle Times*, (February 12, 2006), available at [http://seattletimes.nwsourc.com/html/chinainfocus/2002782434\\_chinapiracy12.html](http://seattletimes.nwsourc.com/html/chinainfocus/2002782434_chinapiracy12.html) (describing counterfeit copies of various business-related software being sold in the basement of a building for 60 cents, when prices of some legitimate versions of that software being sold on the second floor for prices reaching \$1000) (Exhibit US-37).

or several movies.”<sup>104</sup> According to one Chinese TV series producer, such products may have a destructive impact on China’s legitimate audio-visual product market.<sup>105</sup>

150. In short, many classes of commercial scale piracy and counterfeiting simply will not meet the numerical threshold tests China imposes. Regardless of whether the piracy or counterfeiting is evidenced by components of finished goods, reliable indicia of a commercial operation such as fake packaging, pirated pre-release copies, or other persuasive facts, it is undeniable that these instances of counterfeiting and piracy occur “on a commercial scale” and should not be exempt from criminal procedures and penalties.

### **3. The Existence of China’s Criminal Thresholds Creates a Safe Harbor for Commercial Scale Copyright Piracy and Trademark Counterfeiting: A Case Example**

151. As demonstrated in the previous two subsections, China’s criminal thresholds draw arbitrary lines in deciding what types of counterfeiting and piracy activity to subject to criminal procedures and penalties, lines that do not correspond to any actual distinctions between commercial-scale and non-commercial-scale activities. Accordingly, China’s criminal thresholds permit commercial scale counterfeiting and piracy operations to continue in a safe harbor, without threat of criminal prosecution or conviction, so long as the pirates arrange their commercial activities to avoid meeting the very specific threshold tests that China uses.

152. Given how China’s thresholds are formulated, even when China shifts the numerical thresholds down, commercial actors involved in piracy and counterfeiting in China can adapt quickly, continuing to engage in commercial activity without the possibility of criminal prosecution or conviction under the thresholds. This subsection describes the results of one study of this phenomenon – it illustrates why the criminal thresholds, as China has structured them, undermine rather than support China’s efforts to bring intellectual property theft under control.

153. Seizure data compiled by certain right holders regarding their anti-piracy and anti-counterfeiting efforts in China provide a vivid illustration of the problems the Chinese thresholds have created.<sup>106</sup> The data show how the thresholds fail to deter commercial scale piracy and counterfeiting, but instead allow these activities to continue unabated by providing clear guideposts for how to avoid the risk of criminal prosecution. The data also demonstrate how

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<sup>104</sup> See “Fake DVDs hit market,” *China Daily*, (November 11, 2004), available at [http://www.chinadaily.com.cn/english/doc/2004-11/15/content\\_391504.htm](http://www.chinadaily.com.cn/english/doc/2004-11/15/content_391504.htm). (Exhibit US-39).

<sup>105</sup> *Id.*

<sup>106</sup> See China Copyright Alliance, *Report on Copyright Complaints, Raids and Resulting Criminal Actions in China* (January 15, 2008) (Exhibit US-41). See also Letter from Nintendo of America to Office of the United States Trade Representative on Nintendo’s Anti-Piracy Program in China (January 25, 2008) (Exhibit US-36).

reliance on a limited number of numerical tests to the exclusion of many other useful indicia allows many forms of commercial scale piracy and counterfeiting to continue unchecked.<sup>107</sup>

154. The *Report on Copyright Complaints, Raids and Resulting Criminal Actions in China* (“CCA Report”) was prepared by the China Copyright Alliance (“CCA”).<sup>108</sup> The CCA Report summarizes seizure data relating to administrative raids of suspected infringing products in retail markets in four major cities in China: Beijing, Shanghai, Shenzhen, and Guangzhou. The data were collected over a two year period (January 2006 - November 2007). During this time period, the December 2004 JI was in effect, and after April 5, 2007, the April 2007 JI also was in effect.

155. The CCA Report focuses on administrative enforcement raids – undertaken by Chinese administrative enforcement authorities in response to complaints from right holders – that involve a variety of retail operations. Over 2,000 complaints were filed against retail targets that the right holder groups believed exceeded the criminal thresholds in effect during the time of the complaint. The CCA Report catalogues the results reported by the relevant authorities in connection with the administrative raids undertaken in the retail marketplaces.

156. In the aggregate, the seizure data illustrate a highly troubling feature of the thresholds: Commercial operations are adjusted and restructured to ensure that they remain at levels that fall under China’s criminal thresholds.<sup>109</sup> This trend comes into stark relief in the chart below:<sup>110</sup>

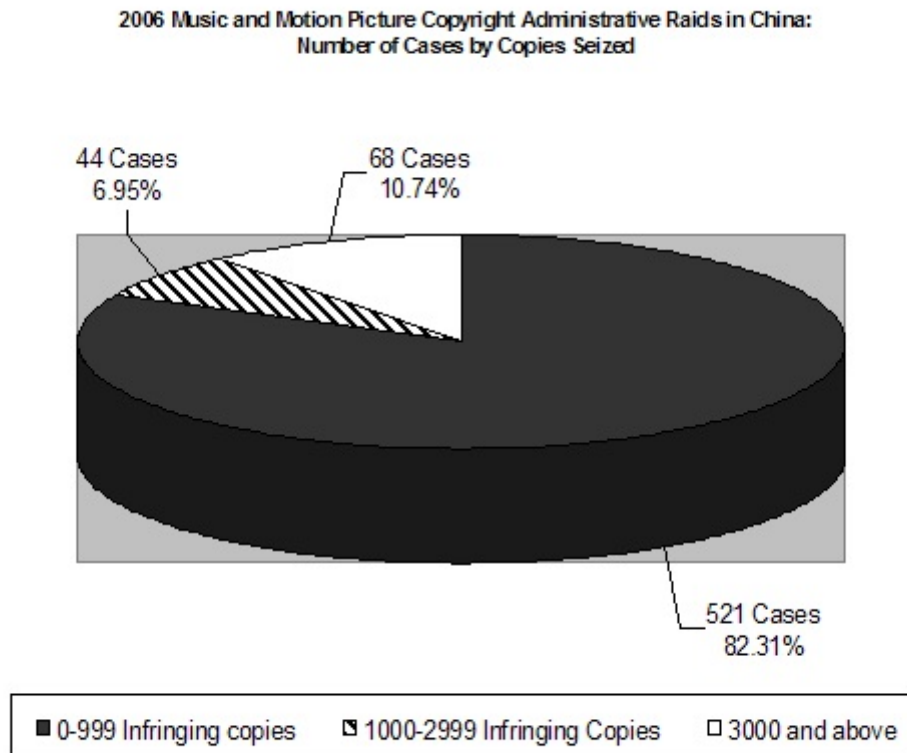
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<sup>107</sup> See paragraph 146 *supra* for a discussion of Nintendo of America’s seizure data.

<sup>108</sup> The China Copyright Alliance (CCA) is a coalition of six trade associations that represent several creative industry sectors. Its members include: the Motion Picture Association of America (MPAA), the International Federation of the Phonographic Industry (IFPI), the Recording Industry Association of America (RIAA), the Association of American Publishers (AAP), the Independent Film & Television Alliance (IFTA), and the Art Copyright Coalition (ACC).

<sup>109</sup> See, e.g., “Counterfeit Goods in China: Mind Games,” *The Economist* (November 8, 2007), available at [http://www.economist.com/business/displaystory.cfm?story\\_id=10111006](http://www.economist.com/business/displaystory.cfm?story_id=10111006) (reporting that “[o]nly products worth more than 50,000 yuan can be passed on to police; so counterfeiters limit inventory to just below this point”) (Exhibit US-42).

<sup>110</sup> CCA Report, at p. 5.



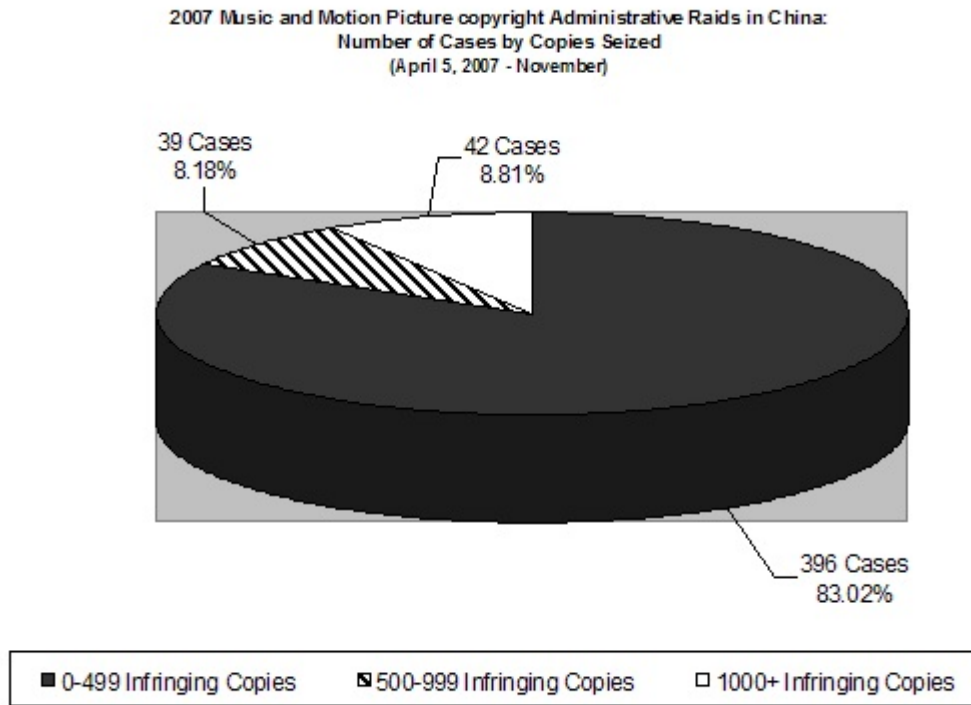
157. As the pie chart above demonstrates, the administrative raid data show that significant quantities of retail sales of infringing product takes place in China at levels below China’s thresholds. With the Article 217 1000 copy thresholds in effect during 2006, the vast majority of retail outlets – a classic example of commercial scale activity – faced no possibility of criminal prosecution or conviction under Chinese laws.

158. Instead, the CCA seizure data illustrate how thresholds function as a “safe harbor” for pirates and counterfeiters, offering them a convenient reference point for structuring their business to minimize the likelihood that any of them could ever be associated with enough inventory or turnover to face criminal prosecution or conviction. To avoid potential liability under China’s criminal thresholds, pirates and counterfeiter can employ a number of methods – such as selling their goods by means of a catalogue that features only the sleeves of DVD that are available for sale, keeping available inventory low, or by simply not keeping quantified sales records – to ensure no one can prove they meet the volume and value thresholds.<sup>111</sup>

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<sup>111</sup> See, e.g., Dawn C. Chmielewski, “Film not out yet on DVD? You can find it in China,” *Los Angeles Times*, (November 12, 2007), available at <http://www.latimes.com/technology/la-fi-dvd12nov12,1,2397358,full.story?coll=la-headlines-technology>

159. Moreover, the data collected since the copy threshold for copyright piracy was changed to 500 copies in April 2007 confirm how rapidly counterfeiters and pirates respond to changes in China’s criminal thresholds. As the chart below shows,<sup>112</sup> retailers appear to have responded swiftly to the new, lower 500 copy thresholds applied to their operations by simply lowering their inventory or turnover:



<sup>111</sup> (...continued)

(Noting that [c]ustomers flip through stacks of DVD sleeves on the front counter, then place their orders for bootleg discs that clerks retrieve from the back.”) (Exhibit US-34); “Counterfeit Goods in China: Mind Games,” *The Economist*, (November 8, 2007), available at [http://www.economist.com/business/displaystory.cfm?story\\_id=10111006](http://www.economist.com/business/displaystory.cfm?story_id=10111006) (“[e]nter a special kiosk and a wall of dresses is pulled back, or handbags pushed aside to reveal a library of catalogues [of counterfeit goods] . . . [p]oint at a selection and it will be handed over in a room up the back staircase, behind a tattoo parlours, in a nearby warehouse, or even for the unadventurous, back in the shop.”) (Exhibit US-42); Ann Mah, “Fakes still have their niche in China,” *International Herald Tribune*, (May 31, 2006), available at <http://www.iht.com/articles/2006/03/05/opinion/rfake.php>. (“During a recent visit to Silk Alley [in Beijing] . . . [a]t vendor’s stalls, customers flipped through photo albums of Louis Vuitton bags, which were stored in another location.”) (Exhibit US-43).

<sup>112</sup> CCA Report, p. 7.

160. A striking congruence becomes evident when comparing the two sets of “below-the-thresholds” seizure data (i.e., for calendar year 2006 and for the period from April 5, 2007 to November 30, 2007), where the copy thresholds were 1000 and 500, respectively:<sup>113</sup>

	<i>Percentage</i>	<i>Cases</i>
<b>Raids run in 2006 with seizures below the 1,000-copy threshold</b>	<b>82.3%</b>	<b>521/633</b>
<b>Raids run from April 5-November 30, 2007 with seizures below the 500-copy threshold</b>	<b>83.0%</b>	<b>396/477</b>

161. The fact that more than 80% of all administrative raids in both of these two time periods netted evidence falling below the thresholds in effect at the time provides a real-world demonstration of the serious weaknesses in China’s thresholds-based system. The pirates can and do swiftly adapt their enterprises within this system, and thereby successfully avoid the criminal sanctions supposed to be available to combat their activities.

#### **4. Conclusion**

162. As the discussion above has demonstrated, China’s measures fail to make various acts of commercial scale trademark counterfeiting and copyright piracy subject to criminal procedures and penalties. This follows from an analysis of the structure and operation of the criminal thresholds themselves. In addition, the CCA Report provide an enlightening and concrete example of the troubling consequences of China’s criminal thresholds.

163. Accordingly, for all of the foregoing reasons, the United States requests that the Panel find that China’s measures are inconsistent with China’s obligations under the first sentence of Article 61 of the TRIPS Agreement.

#### **D. China’s Thresholds Are Inconsistent with China’s Obligations Under Article 61, Second Sentence, of the TRIPS Agreement**

164. The second sentence of Article 61 provides that “[r]emedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent . . . .” This obligation clarifies the types of criminal remedies that must be provided for and made “available” by China for wilful trademark counterfeiting and copyright piracy on a commercial scale. It also makes clear that these remedies must be sufficient to provide a deterrent to potential pirates and counterfeiters.

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<sup>113</sup> CCA Report, pp. 9-10.

165. While no panel has previously considered Article 61 of the TRIPS Agreement, in *United States – Section 211 Omnibus Appropriations Act of 1998*, the Appellate Body considered the term “available” in Article 42 of the TRIPS Agreement. Article 42 provides useful context for Article 61, which is also in Part III of the TRIPS Agreement. Article 42 provides that “Members shall make *available* to right holders civil judicial procedures.” Similarly, the second sentence of Article 61 provides that remedies “available” shall include imprisonment and/or monetary fines. In the *Section 211* dispute, the Appellate Body found that the ordinary meaning of “available” in Article 42 extends to more than simply placing obligations on the books:

The first sentence of Article 42 requires Members to make certain civil judicial procedures “available” to rights holders. Making something available means making it “obtainable,” putting it “within one’s reach” and “at one’s disposal” in a way that has sufficient force or efficacy.<sup>114</sup>

166. China has committed to make available in its law remedies that “include imprisonment and/or monetary fines sufficient to provide a deterrent . . . .” As a consequence of the thresholds described above in section III.B of this submission, however, China’s measures do not even provide for criminal remedies for certain cases of wilful trademark counterfeiting and copyright piracy on a commercial scale. Accordingly, China’s thresholds are also inconsistent with China’s obligations under the second sentence of Article 61. China can not make the necessary remedies available or sufficient to deter piracy and counterfeiting, when many classes of commercial scale piracy and counterfeiting are not even subject to criminal prosecution or conviction.

**E. China’s Thresholds Are Inconsistent with China’s Obligations Under Article 41.1 of the TRIPS Agreement**

167. As a result of the thresholds described above in section III.B of this submission, China fails “to provide for” criminal procedures and penalties to be applied in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale as required by Article 61, first sentence. Consequently, as summarized below, China’s measures at issue are also inconsistent with China’s obligations under Article 41.1 of the TRIPS Agreement to make these enforcement procedures “available” under its law.

168. Under Article 41.1 of the TRIPS Agreement, China has agreed to “ensure that enforcement procedures as specified in this Part are available under [its] law . . . .” Article 61 is part of “this Part” (Part III of the TRIPS Agreement). Thus, in order to fulfill the requirements of Article 41.1, China is obligated to ensure the availability of criminal procedures and penalties for wilful trademark counterfeiting and copyright piracy on a commercial scale.

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<sup>114</sup> Appellate Body Report, *United States – Section 211 Omnibus Appropriations Act of 1998*, WT/DS176/AB/R, adopted 1 February 2002.



169. As demonstrated above, however, China has failed even to provide for the criminal procedures and penalties required by Article 61 for cases that fall below China’s threshold but nonetheless meet the requirement of being “commercial scale” piracy or counterfeiting. Therefore, China has not made these procedures and penalties “available” as required by Article 41.1 of the TRIPS Agreement, rendering China’s thresholds inconsistent with Article 41.1.

**V. CHINA’S MEASURES FOR DISPOSING OF CONFISCATED GOODS THAT INFRINGE INTELLECTUAL PROPERTY RIGHTS ARE INCONSISTENT WITH CHINA’S OBLIGATIONS UNDER ARTICLE 59 OF THE TRIPS AGREEMENT**

**A. Introduction**

170. The second set of U.S. claims concerns how the Chinese customs authorities must handle infringing goods seized at the border. These claims implicate a core concern of TRIPS Agreement negotiators: the movement across borders of goods that infringe the intellectual property rights of inventors, authors of creative works, and trademark owners. Indeed, international trade in counterfeit goods concerned GATT Contracting Parties even before commencement of the Uruguay Round.<sup>115</sup> By the conclusion of the Uruguay Round, negotiators had reached consensus on an important set of disciplines designed to help combat trade in a range of infringing products, and to deter infringers from engaging in that trade.

171. Regrettably, the United States considers that China’s measures for enforcing intellectual property rights at the border do not conform to the standards agreed upon in the TRIPS Agreement. In particular, China’s measures for disposing of imports confiscated for infringing intellectual property rights are inconsistent with China’s obligations under Article 59 of the TRIPS Agreement. These obligations generally require Chinese authorities to have the authority to order destruction of the goods, or their disposal outside the channels of commerce in a manner that avoids harm to the right holder.

172. However, under Chinese law, Chinese customs authorities do not have the scope of authority required by Article 59. They cannot exercise their discretion to destroy the goods, and they must give priority to disposal options that allow such goods to enter the channels of commerce or otherwise cause harm to the right holder. These requirements mean that the competent Chinese authorities lack the authority to order the destruction or disposal of infringing goods in accordance with the requirements of the TRIPS Agreement.

173. This part of the submission elaborates on these claims.

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<sup>115</sup> See, e.g., *GATT Ministerial Declaration*, L/5424, adopted 29 November 1982, at p. 11 (instructing the Council to examine the question of counterfeit goods with a view to determining the appropriateness of joint action in the GATT framework on the trade aspects of commercial counterfeiting.”) (Exhibit US-44).

## B. Article 59 of the TRIPS Agreement

174. Part III, Section 4, of the TRIPS Agreement imposes obligations related to border measures in the context of enforcement of intellectual property rights. In particular, the first sentence of Article 59 provides that (emphasis added):

Without prejudice to the other rights of action open to the right holder and subject to the right of the defendant to seek review by a judicial authority, *competent authorities shall have the authority to order the destruction or disposal of infringing goods in accordance with the principles set out in Article 46.*

175. Article 46 of the TRIPS Agreement is contained in Section 2 (“Civil and Administrative Procedures and Remedies”) of Part III of the TRIPS Agreement. By its terms, it does not apply to border measures taken by customs authorities; instead, it contains rules that apply to Members’ judicial authorities regarding certain remedies for infringement. The first and fourth sentences of Article 46, however, are pertinent to the obligation in Article 59:

[1] In order to create an effective deterrent to infringement, the judicial authorities shall have the authority to order that goods that they have found to be infringing be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, or, unless this would be contrary to existing constitutional requirements, destroyed.

and:

[4] In regard to counterfeit trademark goods, the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce.

176. These two sentences are not labeled “principles” in Article 46 – indeed, the word “principle” does not appear in that article. Nevertheless, these two sentences provide the substance to which the phrase “the principles set out in Article 46” refers.

177. The first sentence discusses both “destr[uction]” and “dispos[al],” the two terms in Article 59. By its terms, Article 46 requires that the judicial authorities of a Member “shall have” the authority to destroy infringing goods or to dispose of them outside the channels of commerce so as to avoid causing harm to the right holder.<sup>116</sup> Transposing this requirement to the context of Article 59, the applicable principle must be that a Member’s competent authorities for

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<sup>116</sup> The “unless this would be contrary to existing constitutional requirements” proviso does not apply in this dispute. As is discussed below, although destruction is not made available at the border in accordance with TRIPS Agreement requirements, destruction is a possibility in China (and therefore cannot be contrary to constitutional requirements).

border enforcement “shall have” the authority to destroy infringing goods or to dispose of them outside the channels of commerce so as to avoid causing harm to the right holder.

178. The fourth sentence of Article 46 elaborates on the requirement that a judicial authority shall have the authority to dispose of infringing goods outside the channels of commerce. In particular, for counterfeit trademark goods, removing the unlawfully affixed trademark will not suffice to permit release of the good into the channels of commerce, other than in exceptional cases. Thus, in the context of Article 59, the applicable principle must be that a Member’s competent authorities for border enforcement shall not permit release of seized counterfeit trademark goods into the channels of commerce if the unlawfully affixed trademark is removed, other than in exceptional cases.

**C. Contrary to Article 59, China’s Customs Authorities Do Not Have the Authority to Order the Destruction or Disposal of Infringing Goods in Accordance with the Principles Set Out in Article 46**

179. Section III.C above describes the measures that govern the disposal and destruction of goods found to infringe intellectual property rights in the context of border measures: Article 27 of the Customs IPR Regulations and Article 30 of the Customs IPR Implementing Measures. These two articles essentially contain the same provisions; these provisions mandate a sequence of steps that Chinese Customs must take in deciding how to treat goods seized at the border that it has determined infringe intellectual property rights.<sup>117</sup> Article 30 of the Customs IPR Implementing Measures clarifies the sequence of steps, by listing them in three groups or “items.”

180. The first item contains two parts. Customs ascertains whether the infringing goods can be used for “public good”; if so, Customs gives the goods to the relevant “public welfare organization.” Customs may also allow the right holder to purchase the goods “for compensation” – i.e., Customs offers the right holder the opportunity to buy the goods that infringe on the right holder’s intellectual property rights.

181. If neither of these two options is viable (or, in the words of the Customs IPR Implementing Measures, “where relevant goods cannot be disposed of in accordance with [item] (A)”), Customs may proceed to the second item: if the infringing features can be removed, Customs must auction the goods. The proceeds from the auction are remitted to the national treasury.<sup>118</sup>

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<sup>117</sup> Under Article 2 of the Customs IPR Regulations, “intellectual property rights” refers to the exclusive right to use a trademark, copyrights and related rights, and to patent rights that relate to import or export goods and that are protected under the laws and administrative statutes of the People’s Republic of China.”

<sup>118</sup> On April 2, 2007, in Customs Announcement No. 16, the General Administration of Customs announced two additions to its auction procedures. These two new procedures, however, do not prevent the release

182. If none of the foregoing options is viable (or, in the words of the Customs IPR Implementing Measures, “where the relevant goods cannot be disposed of in accordance with [items] (A) or (B)”), Customs may, then and only, proceed to the third item: destruction of the goods.

183. This compulsory sequence of steps means that China’s customs authorities do not have the authority required by the principles of Article 46 of the TRIPS Agreement.

184. *First*, neither of the two components of the compulsory first “item” accords with Article 46 principles. The option under which a right holder can buy the infringing goods is not disposal “in such a manner as to avoid any harm caused to the right holder”: anyone who has to pay for goods that violates his or her own patent, trademark or copyright is harmed in the amount of the payment.

185. The second component of the first “item” – where Chinese Customs gives infringing goods to “public welfare organizations” – may or may not be available in a given case. Where a donation to a charity is an option, and the donation has the right-holder’s consent, this may be a socially beneficial disposition of infringing goods that also observes the principles of Article 46.

186. On the other hand, allowing counterfeit goods to be used, even for “public good,” can be harmful to a right holder. For example, if shoddy counterfeit goods are given to needy people, the right holder’s reputation will suffer if the goods fail to perform properly or, even worse, are defective or dangerous.<sup>119</sup> Moreover, the right holder may face unwarranted claims related to defects in the counterfeit products, requiring time and money to counter. Finally, nothing appears to prevent public welfare organizations from selling the infringing goods they receive under the first “item,” thus moving these goods back into commerce.

187. The Customs IPR Regulations and Customs IPR Implementing Measures take none of these concerns into account, as they do not provide any discretion to the Customs authorities to determine that transfer to a “public welfare organization” is not appropriate in circumstances where the right holder would be harmed.

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<sup>118</sup> (...continued)

of the seized goods into the channels of commerce. First, while the Announcement appears to clarify that the infringing characteristic – such as a trademark – must be “completely eliminat[ed],” if such good is to be sold at public auction, that does not affect the underlying requirement under the measures that the goods will flow into the channels of commerce. Second, China’s customs authorities now must ask the right holder for any “comments” before the auction of the infringing goods. However, this requirement does not alter the sequence of disposal options. Indeed, by specifically reaffirming the hierarchy of disposal options under Article 27 of the Customs IPR Regulations, the Announcement No. 16 merely confirms the current hierarchy of disposal options for confiscated goods that exist under China’s measures. (Exhibit US-7).

<sup>119</sup> See David Barboza, “China’s New Concern: Exploding Phones,” *International Herald Tribune*, (July 6, 2007), available at <http://www.iht.com/articles/2007/07/06/business/battery.php> (discussing the problem of exploding mobile phone batteries made in China that brand owners allege are counterfeit) (Exhibit US-45).

188. *Second*, where the public welfare organization transfer is unavailable, and the right holder does not elect to purchase the infringing goods, the Customs authorities must turn to the second “item” relating to auction of the confiscated goods.

189. This second “item,” which is also compulsory (once the first “item” has not led to disposal of the goods), likewise does not comport with the principles of Article 46. Putting the seized goods up for auction obviously both precludes destroying them, and introduces them into commerce.<sup>120</sup> Moreover, taking this action without the right holder’s consent can cause great harm to the right holder. Thus, auctioning infringing goods does not qualify as “disposal outside the channels of commerce.”

190. *Third*, for counterfeit trademark goods, the auction provision is also inconsistent with the principle in the fourth sentence of Article 46, under which goods can be introduced into the channels of commerce after removal of the unlawfully affixed trademarks only “in exceptional cases.” Nothing about the Chinese customs measures suggests that the auctioning of these goods after removal of the infringing mark is permitted only in “exceptional cases.”<sup>121</sup> Indeed, under China’s customs measures, Chinese customs authorities never have the authority to destroy goods whose infringing features can be removed.

191. Finally, as explained above, the first and second “items” are compulsory prerequisites to the third item (destruction). Accordingly, where any of the options in the first or second “item” is available, Chinese customs authorities are not, as a matter of Chinese law, authorized to destroy the infringing good or otherwise dispose of the good in a way that either is outside of the channels of commerce or handled in a manner that avoids harm caused to the right holder. Consequently, in all those circumstances, the Chinese customs authorities lack the authority to order the destruction or disposal of infringing goods in accordance with the principles of Article 46 of the TRIPS Agreement. As a result, China’s measures are inconsistent with Article 59 of the TRIPS Agreement.

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<sup>120</sup> During the negotiations of the precursor to Article 46, TRIPS Agreement, a representative of the European Communities explained that the expression “channels of commerce” (in the phrase “disposed of ... outside the channels of commerce”) in its proposal on IPR enforcement “referred to channels *whose use would not damage the commercial interests of the right holder.*” See *Meeting of Negotiating Group of 3-4 July 1989, Note by the Secretariat*, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/13, circulated 16 August 1989, at p. 14 (emphasis added) (Exhibit US-46); See also *Proposal by the European Community for the Negotiations on the Enforcement of Trade-Related Intellectual Property Rights*, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, MTN.GNG/NG11/W/31, circulated 20 May 1989, at p. 4, 7-8 (Exhibit US-47).

<sup>121</sup> We also note that nothing appears to prevent the counterfeiter or importer whose goods have been confiscated from purchasing the seized goods at the auction, re-affixing the infringing marks, and proceeding to distribute the counterfeit goods.

## **D. Conclusion**

192. China’s measures for disposing of infringing goods confiscated at the border have serious shortcomings. They do not provide Chinese border officials with the authority required under TRIPS Article 46 principles: Those officials cannot destroy infringing goods, except in very limited cases, and after exhausting a number of other alternatives. Those officials also cannot dispose of goods outside the channels of commerce in a manner that avoids any harm to the right holder.

193. Two defining objectives of Part III of the TRIPS Agreement are the protection of the right holder and the creation of effective deterrents against infringement. China, by putting the right holder to the choice of purchasing the infringing goods or allowing confiscated goods to face release in the manner set forth in China’s measures, advances neither goal.

194. The United States requests that the Panel find that the compulsory sequences of steps set out in the Chinese measures at issue mean that Chinese customs authorities lack the authority to order destruction or disposal of infringing goods in accordance with the principles set out in Article 46 of the TRIPS Agreement, and to find that the measures at issue are therefore inconsistent with China’s obligations under Article 59 of the TRIPS Agreement.

## **VI. CHINA’S DENIAL OF COPYRIGHT AND RELATED RIGHTS PROTECTION AND ENFORCEMENT TO WORKS THAT HAVE NOT BEEN AUTHORIZED FOR PUBLICATION OR DISTRIBUTION WITHIN CHINA IS INCONSISTENT WITH THE TRIPS AGREEMENT**

### **A. Introduction**

195. As described in more detail below, under the Berne Convention<sup>122</sup> and the TRIPS Agreement, with very limited exceptions, a work acquires copyright protection immediately and automatically. Copyright arises immediately upon a work’s creation and, unlike patent rights and trademark rights, which may be (and often are) made conditional upon application and registration, copyright protection cannot be conditioned on the successful completion of any formalities, but instead arises automatically.

196. Because of the first sentence of Article 4 of the Copyright Law, however, China’s copyright regime does not meet this standard. Article 4 of the Copyright Law provides as follows:

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<sup>122</sup> In the TRIPS Agreement, the term “Berne Convention (1971)” is used to refer to the 1971 Paris Act of the *Berne Convention for the Protection of Literary and Artistic Works*. See TRIPS Agreement, Article 1, footnote 2. For the sake of simplicity, this submission uses the term “Berne Convention” instead of “Berne Convention (1971)” to refer to that instrument. (Exhibit US-48).

Works the publication or distribution of which is prohibited by law shall not be protected by this Law. Copyright owners, in exercising their copyright, shall not violate the Constitution or laws or prejudice the public interests.

On its face, the first sentence of this provision denies immediate, automatic protection to certain works of creative authorship.

197. This provision of China's Copyright Law has important negative consequences. By denying copyright protection to works that should have it, Article 4 allows copyright infringers to profit at the expense of the legitimate rightholder, without fear of being subjected to enforcement procedures and remedies for copyright infringement.

198. For example, the Chinese legal provisions described in section III.E.2 above prohibiting the publication or distribution of works that have not been submitted for content review, or have not successfully completed content review, demonstrate that these adverse consequences can arise in a number of different situations. First, the Copyright Law provides no copyright protection to works that are awaiting the results of content review in China. This review sometimes is completed relatively quickly, but it can also take weeks or months. Second, in the case of works that, as a result of content review, have had to be changed for distribution in China, the Copyright Law provides no copyright protection for the version that was not authorized for distribution in China (but which may be distributed elsewhere in the world and so they find their way into China). Third, the Copyright Law provides no copyright protection for works that have been submitted for content review but rejected. Fourth, it provides no copyright protection for the enormous volume of works that have never been submitted for content review in China, whether it be films for theatrical release that are blocked by China's annual revenue-sharing quota of 20 imported theatrical films, movies on DVDs, music on CDs, books, journals or other similar products.

199. The implications of this denial of copyright protection are far-reaching and troubling. Works that have already been created but cannot legally be published or distributed are denied copyright protection at a time when they most need it: when they cannot access the market, but when illegitimate copies are available.

200. Pirated copies of films, publications, music, and other creative works are widely available in China.<sup>123</sup> Furthermore, pirated copies often reach the market before legitimate copies do.<sup>124</sup> Pirates, of course, do not wait for the results of content review or other regulatory approvals.

201. China's own government agencies and media are well aware of this situation. A recent Chinese Government announcement of a national campaign to protect intellectual property rights contained this statement by a Chinese consumer:

Consumer Liu Sheng said she was trying to cut down on purchasing pirated CDs and DVDs. "I try not to buy pirated ones now, *except movies I want to watch immediately*," Liu told China Daily.<sup>125</sup>

202. Ms. Liu's statement emphasizes an important point: Consumers want to see the latest movie and listen to the newest music. Copyright pirates can and do supply this demand, to the detriment of legitimate right holders.

203. When copyright protection is denied or delayed (e.g., because a work has not yet successfully cleared content review, or where only a changed version of the work received approval), those legitimate right holders are deprived of the very tools to combat copyright piracy that copyright law is intended to furnish. What is more, for works awaiting the results of content review, these tools are denied at the very time that they are most needed. The denial of copyright protection in such situations thus runs counter to China's own interests in lowering piracy levels within China.

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<sup>123</sup> See, e.g., *Cinema and Home Entertainment in China*, published by Screen Digest and Nielsen NRG, (2007), p. 32 (Exhibit US-49) ("A recent study by the Chinese Academy of Social Sciences (CASS) states that the market size for pirated films in China far exceeds that of authentic films. The MPAA estimates piracy in the market at 95 per cent, largely at the VCD/DVD end of the market . . . . A conservative estimate of pirated to legitimate product on the market is 9:1, in favour of the pirates."). See also "China Produces 500 Million Pirated Books Each Year," *Xinhua*, (March 19, 2007), available at [http://english.ipr.gov.cn/ipr/en/info/Article.jsp?a\\_no=61960&col\\_no=925&dir=200703](http://english.ipr.gov.cn/ipr/en/info/Article.jsp?a_no=61960&col_no=925&dir=200703) (Exhibit US-50), and "Public plays a decisive role in fighting against piracy," *Xinhua*, (March 26, 2007), available at, [http://english.ipr.gov.cn/ipr/en/info/Article.jsp?a\\_no=64198&col\\_no=925&dir=200703](http://english.ipr.gov.cn/ipr/en/info/Article.jsp?a_no=64198&col_no=925&dir=200703) (Exhibit US-51).

<sup>124</sup> See, e.g., *Cinema and Home Entertainment in China*, published by Screen Digest and Nielsen NRG, (2007), p. 71, (Exhibit US-49) ("The biggest problem for the Chinese video software market continues to be piracy, which ensures that pirated versions of domestic and foreign films are widely available on VCD or DVD before their local theatrical release date."). See also "Pirate Chinese Potter Books Sold," *BBC News*, August 1, 2005, available at: <http://news.bbc.co.uk/1/hi/entertainment/arts/4734161.stm> (last visited January 26, 2008) (Exhibit US-35) and "Chinese Markets Awash in Fake Potter Books," *New York Times*, (August 1, 2007), available at <http://www.nytimes.com/2007/08/01/world/asia/01china.html?pagewanted=1&r=2&sq&scp=1> (Exhibit US-52).

<sup>125</sup> "Public called on to lead fight against piracy," (April 17, 2007) (emphasis added) (Exhibit US-53). This article is available on the website of the National Working Group for Intellectual Property Rights Protection at [http://english.ipr.gov.cn/ipr/en/info/Article.jsp?a\\_no=69700&col\\_no=925&dir=200704](http://english.ipr.gov.cn/ipr/en/info/Article.jsp?a_no=69700&col_no=925&dir=200704).

The National Working Group for IPR Protection is constituted of seventeen Chinese government entities involved with IPR issues in China, and is described at the following web page: <http://english.ipr.gov.cn/en/aboutus.shtml>.



204. The WTO Agreement does not permit giving copyright infringers this advantage in the marketplace. As this Section VI will show, the first sentence of Article 4 of the Copyright Law is inconsistent with China's obligations under the TRIPS Agreement, in at least two ways.

205. *First*, contrary to China's obligations under Article 9.1 of the TRIPS Agreement (and the provisions of the Berne Convention referenced in Article 9.1), the first sentence of Article 4 of the Copyright Law denies copyright protection to works that are entitled to such protection. Depending on the construction given to Article 4, its first sentence may also be inconsistent with China's obligations under Article 14 of the TRIPS Agreement.

206. *Second*, as a consequence of the foregoing, China fails to ensure that enforcement procedures as specified in Part III of the TRIPS Agreement are available to copyrighted works that should be protected upon creation in order to permit effective action and expeditious remedies against copyright infringements. Among other problems, China fails to provide for criminal procedures and penalties to be applied in certain cases of willful copyright piracy on a commercial scale. China is therefore not in compliance with its obligations under Article 41.1 and Article 61, first and second sentence, of the TRIPS Agreement.

207. It is important to emphasize that these inconsistencies with the TRIPS Agreement do not arise because China prohibits certain works from being published or distributed in China. The TRIPS Agreement does not obligate China, or any other WTO Member, to permit all works to be published and all works to be distributed. Instead, the inconsistencies arise from China's decision to deny copyright protection and enforcement to the works that it prohibits.

208. This section of the U.S. First Submission elaborates on these claims.

## **B. The Denial of Copyright and Related Rights Protection**

### **1. The Relevant TRIPS Agreement and Berne Convention Provisions**

209. Article 9.1 of the TRIPS Agreement provides that all WTO Members shall comply with Articles 1 through 21 of the Berne Convention, except that WTO Members do not have rights or obligations under the TRIPS Agreement in respect of the rights conferred under Article 6*bis* of the Berne Convention or of the rights derived therefrom.<sup>126</sup> In addition, China and the United States are both parties to the Berne Convention, China having acceded in 1992 and the United States having acceded in 1988.<sup>127</sup>

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<sup>126</sup> Article 6*bis* of the Berne Convention relates to moral rights (*e.g.*, the right to claim authorship of the work and to object to distortions, mutilations or other modifications of, or other derogatory action in relation to, that work, which would be prejudicial to the author's honor or reputation), not economic rights.

<sup>127</sup> Exhibit US-54 is a printout of the web page maintained by the World Intellectual Property Organization (WIPO) listing the contracting parties to the Berne Convention. The web page is available at:

210. Several of the Berne Convention articles with which China must comply pursuant to TRIPS Article 9.1 are relevant in this dispute. To begin with, Article 5(1) of the Berne Convention provides as follows:

Authors shall enjoy, in respect of the works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted under this Convention.

211. Article 2 of the Berne Convention defines the “works for which [authors] are protected under this Convention,” as that phrase is used in Article 5(1). Article 1 establishes that the countries to which the Berne Convention applies constitute a union for the protection of the rights of authors “in their literary and artistic works.” Article 2(1) defines the expression “literary and artistic works” as including “every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression,” and provides an illustrative list of such works. Article 2(3) provides that certain derivative works shall be protected as original works, and Article 2(5) provides for the protection of certain collections of literary or artistic works. Article 2(6) provides that the works mentioned in Article 2 shall enjoy protection in all countries of the Union.<sup>128</sup>

212. The “rights specially granted under [the Berne Convention],” as mentioned in Article 5(1), refer to the various minimum rights required under the Berne Convention. These include rights such as the exclusive right to authorize the reproduction of protected works (Berne Convention Article 9(1)); the exclusive right to authorize the translation of protected works (Berne Convention Article 8); the exclusive right to authorize adaptations, arrangements and other alterations of protected works (Berne Convention Article 12); and various exclusive rights to authorize public performance and communication to the public (*e.g.*, Berne Convention Articles 11(1), 11*bis*(1), and 14*bis*(1)). In this connection, it is important to emphasize that the exclusive right to authorize such economic activities is also the right to prohibit them; that is, the holder of these exclusive rights has the right to prevent others from exploiting the work (for profit or otherwise) without permission.

213. Article 5(2) of the Berne Convention provides, in relevant part, that “[t]he enjoyment and exercise of these rights [*i.e.*, the rights mentioned in Article 5(1)] shall not be subject to any formality....”

214. As described above, China’s Copyright Law is the Chinese legal basis for protecting and enforcing the copyrights of authors in their literary, artistic and scientific works. It is therefore

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<sup>127</sup> (...continued)

[http://www.wipo.int/treaties/en/ShowResults.jsp?lang=en&treaty\\_id=15](http://www.wipo.int/treaties/en/ShowResults.jsp?lang=en&treaty_id=15).

<sup>128</sup> As discussed below, certain other provisions of Articles 2 and 2*bis* provide limitations and qualifications on the scope of the works protected.

the legal basis for providing the rights required by the Berne Convention (and thus, by the TRIPS Agreement). The first sentence of Article 4 of the Copyright Law, however, denies the benefits of the Copyright Law to certain works, and does so in a manner inconsistent with China's obligations under the TRIPS Agreement. This is so for several reasons.

**2. The First Sentence of Article 4 Excludes from Copyright Protection a Category of Works that the Berne Convention Does Not Allow to Be Excluded**

215. Article 4 of the Copyright Law excludes from copyright protection an entire category of works – “works the publication or distribution of which is prohibited by law” – but that exclusion from protection is not permitted or even contemplated by the Berne Convention. Berne Convention Article 2(1) makes clear that the works protected by the Convention include “every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression” (emphasis added), and Article 2(6) further makes clear that these works must enjoy copyright protection everywhere that the Berne Convention applies. Other provisions in Articles 2 and *2bis* of the Berne Convention provide specific qualifications to these provisions, such as the possibility of requiring fixation (Article 2(2)), the possibility of excluding from coverage official texts, political speeches and speeches in legal proceedings (Articles 2(4) and *2bis*(1)), and the exception for news of the day (Article 2(8)).

216. The exclusion from protection contained in Article 4 of the Copyright Law, however, is contained nowhere in the Berne Convention. That exclusion, therefore, is prohibited by the Berne Convention.<sup>129</sup>

**3. The First Sentence of Article 4 Is Inconsistent with Article 5(1) of the Berne Convention**

217. The first sentence of Article 4 of the Copyright Law denies to works “the publication or distribution of which is prohibited by law” the protection set out in the remainder of the Copyright Law. Thus, Article 4 denies to the authors of such works the broad set of rights enumerated in Article 10 of the Law. The rights in Article 10 largely encompass the rights contemplated by the provisions of the Berne Convention.

218. Moreover, authors of the works that are denied the protection of the Copyright Law also do not benefit from the remedies specified in Articles 46 and 47 of the Copyright Law, which provide civil liability (and in some case, administrative and/or criminal liability) for copyright infringement.

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<sup>129</sup> Article 17 of the Berne Convention does not allow such exclusion either, since it only provides for the right “to permit, to control, or to prohibit ... the circulation, presentation, or exhibition” of certain works, and not to deny copyright protection to such works.

219. Consequently, by denying the protection of Articles 10, 46 and 47 of the Copyright Law to certain works, the first sentence of Article 4 of the Copyright Law means that the authors of those works do not enjoy the minimum rights that are “specially granted” by the Berne Convention. As a result, Article 4 of the Copyright Law does not comply with the requirements of Article 5(1) of the Berne Convention, and thus it also does not comply with China’s obligations under Article 9.1 of the TRIPS Agreement.

**4. The First Sentence of Article 4 Makes Copyright Protection in China Subject to a Formality that Is Inconsistent with Article 5(2) of the Berne Convention**

220. China has made protection and enforcement under the Copyright Act dependent on the formality of successful conclusion of content review. As described above,<sup>130</sup> works that have not successfully completed content review under the Films Regulation, the Publications Regulation, the AV Regulation or the EP Regulation may not legally be published or distributed within China. Consequently, works in this unauthorized status fall within the scope of the first sentence of Article 4 of the Copyright Law, and thus they are not protected by that Law. The Copyright Law’s protection attaches only after such a work has been submitted for content review, and, if it passes that review unchanged, an authorization to publish and distribute the work has issued. As a formal matter, therefore, copyright protection is dependent, in part, on the issuance of the authorization to publish and distribute resulting from successful conclusion of the content review process.

221. Article 5(2) of the Berne Convention, however, prohibits subjecting the enjoyment and exercise of the rights mentioned in Article 5(1) (*i.e.*, the “rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted by this Convention”) to any formality. To condition copyright rights on the successful completion of the content review process is to make those rights a “subject to a formality,” as that term is interpreted in accordance with the customary rules of interpretation of public international law. In this context, “subject” can be defined to mean “dependent or conditional upon, resting on the assumption of”<sup>131</sup>; and “formality” can be defined as “a formal or ceremonial act; a legal, authorized or customary procedure.”<sup>132</sup>

222. The negotiation history of the Berne Convention confirms this analysis of the term “formality.”<sup>133</sup> Article 2(2) of the original, 1886 text of the Convention contained the following provision concerning “conditions and formalities”: “The enjoyment and exercise of these rights

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<sup>130</sup> Section III.E.2.

<sup>131</sup> *The New Shorter Oxford English Dictionary* (4th ed. 1993), p. 3118 (Exhibit US-55).

<sup>132</sup> *The New Shorter Oxford English Dictionary* (4th ed. 1993), p. 1007 (Exhibit US-56).

<sup>133</sup> Pursuant to the customary rules of treaty interpretation reflected in Article 32 of the Vienna Convention, recourse may be had to supplementary means of interpretation, including the preparatory work of a treaty, in order to confirm the meaning resulting from the application of Article 31 of that Convention.

[*i.e.*, the rights of authors in their literary and artistic works] shall be subject to the accomplishment of the conditions and formalities prescribed by the law in the country of origin of the work. . . .” This provision had already been included in the draft Convention in substantially the same form at the 1884 Berne conference – with the only difference being that the expression appears in the form “formalities and conditions.” These concepts – proposed by the Delegation of Germany – were clarified in the fifth meeting of the conference, the minutes of which contains the following paragraphs:

Dr. Meyer [the delegate of Germany] said the following: “It is merely a question of noting that the wording proposed by the German Delegation, ‘conditions of form and substance,’ has been replaced by the words ‘formalities and conditions,’ and that the word ‘formalities,’ being taken as a synonym of the term ‘conditions of form,’ includes for instance, registration, deposit, etc.; whereas the expression ‘conditions,’ being in our view synonymous with ‘conditions of substance,’ includes, for instance, the completion of a translation within the prescribed period. Thus, the words ‘formalities and conditions’ cover all that has to be observed for the author’s rights in relation to his work to come into being, whereas the effects and consequences of protection, notably with respect to the extent of protection have to remain subject to the principle of treatment of the footing as national.”

The President noted that the Conference agreed with Dr. Meyer on the scope of the words “formalities and conditions.”<sup>134</sup>

223. The provision on formality-*free* protection, which may be found in Article 5(2) of the 1971 Paris Act of the Convention, was originally included in Article 4(2) of the 1908 Berlin Act, and apart from the change of its numbering, it has remained the same: “The enjoyment and the exercise of these rights [*i.e.*, the rights of authors in respect of their literary and artistic works] shall not be subject to any formality. . . .” There is, to be sure, no reference in this text to “conditions.” However, the Report of the Berlin conference contains the following note: “the Article in the draft only refers to *formalities*, but this is meant to cover the *conditions and formalities* to which the 1886 Convention refers.”<sup>135</sup> This means that, in Article 5(2) of the 1971 Paris Act of the Convention, the word “formalities” has the same meaning as the words “formalities and conditions” in Article 2(2) of the original 1886 Act of the Convention, the meaning of which, in turn, was determined by the 1884 Berne diplomatic conference as covering “all that has to be observed for the author’s rights in relation to his work to come into being” in the country concerned.

224. Because content review is a formal, legally required procedure in China, and because the exercise and enjoyment of copyright rights are, for many works, dependent upon submission to

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<sup>134</sup> WIPO translation of the original French text in “The Berne Convention for the Protection of Literary and Artistic Works,” WIPO publication No. 877 (E), (1986), p. 95 (hereinafter “WIPO Berne Centenary book”) (Exhibit US-40).

<sup>135</sup> *Id.*, p. 148.

and successful completion of content review, the content review process makes the exercise and enjoyment of copyright “subject to a formality” within the meaning of Article 5(2). By making protection under the Copyright Law dependent on successful completion of content review, China’s law thus is inconsistent with China’s obligations under Article 5(2) of the Berne Convention. China’s law therefore is also inconsistent with China’s obligations under Article 9.1 of the TRIPS Agreement.

225. In summary, by conditioning the availability of copyright protection on the formality of successful conclusion of content review, China has made the exercise and enjoyment of copyright as well as the exercise and enjoyment of the rights specially granted by the Berne Convention, subject to a formality. Because it does so, Article 4 of China’s Copyright Law is inconsistent with China’s obligations under Article 5(2) of the Berne Convention, and it is therefore also inconsistent with China’s obligations under Article 9.1 of the TRIPS Agreement.

#### **5. The First Sentence of Article 4 May Also Be Inconsistent with Article 14 of the TRIPS Agreement**

226. Article 14.1 of the TRIPS Agreement requires WTO Members to give performers, *inter alia*, the possibility of preventing certain acts,<sup>136</sup> and Article 14.2 of the TRIPS Agreement requires WTO Members to give producers of phonograms (sound recordings) the right to authorize or prohibit the direct or indirect reproduction of their sound recordings.<sup>137</sup> The Copyright Law furnishes the legal basis within China for protecting these so-called “related rights” of performers and sound recording producers.<sup>138</sup>

227. It is unclear whether Article 4 of the Copyright Law operates to deny the protection of the Law to performances (or their fixations) and sound recordings whose publication or distribution is prohibited.<sup>139</sup> Article 4 uses the term “works,” a term that is defined in Article 3 of the Copyright Law. That definition does not appear to include sound recordings and performances (and their fixations).<sup>140</sup> Sound recordings and performances (and their fixations) therefore do not appear, strictly speaking, to be “works” within the meaning of Article 4.

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<sup>136</sup> Article 14.1 of the TRIPS Agreement provides as follows: “In respect of a fixation of their performance on a phonogram, performers shall have the possibility of preventing the following acts when undertaken without their authorization: the fixation of their unfixed performance and the reproduction of such fixation. Performers shall also have the possibility of preventing the following acts when undertaken without their authorization: the broadcasting by wireless means and the communication to the public of their live performance.”

<sup>137</sup> Article 14.6 of the TRIPS Agreement provides that any Member may, in relation to the rights conferred under Articles 14.1 and 14.2, provide for conditions, limitations, exceptions and reservations to the extent permitted by the Rome Convention. None of those conditions, etc., is relevant to this dispute.

<sup>138</sup> See Chapter IV, Sections 2 and 3, of the Copyright Law.

<sup>139</sup> The United States asked China this question during consultations but, to date, has not received an answer.

<sup>140</sup> Article 3(9), however, contains a catch-all category (“other works as provided for in laws and administrative regulations”); and as noted in paragraph 63 above, China has said that the listing of “works” in Article 3 is not exhaustive.

228. The United States would of course prefer China to confirm a liberal interpretation of the first sentence of Article 4 so that the denial of protection in Article 4 does not extend to performances (or their fixations) and sound recordings. However, it is not certain that Article 4 is meant to be limited to “works” that are the subject matter of copyright, as opposed to encompassing as well the subject matter of related rights (such as performances and sound recordings). For example, not including the subject matter of related rights would imply that a sound recording receives protection even when the music on the sound recording does not – an anomalous result at best.<sup>141</sup>

229. With respect to performers, the rights contemplated in Article 14.1 of the TRIPS Agreement are reflected in Articles 37(3)-(6) of the Copyright Law. With respect to producers of sound recordings, the rights contemplated in Article 14.2 of the TRIPS Agreement are reflected in Article 41 of the Copyright Law.<sup>142</sup>

230. Thus, if Article 4 of the Copyright Law does deny protection of the Copyright Law with respect to performances (or their fixations) whose publication or distribution has not been authorized or is otherwise prohibited in China, then in those cases, performers are denied the “possibility of preventing the following acts when undertaken without their authorization: the fixation of their unfixed performance and the reproduction of such fixation,” as well as “the possibility of preventing the . . . broadcasting by wireless means and the communication to the public of their live performance.” Similarly, if Article 4 of the Copyright Law does deny protection of related rights with respect to sound recordings, whose publication or distribution has not been authorized or is otherwise prohibited in China, then in those cases sound recording producers do not have “the right to authorize or prohibit the direct or indirect reproduction of their phonograms.”<sup>143</sup>

231. Therefore, to the extent that Article 4 of the Copyright Law is interpreted as applying to performances (or their fixations) and to sound recordings, it is also inconsistent with China’s obligations under Article 14 of the TRIPS Agreement.

### **C. The Failure to Ensure that Enforcement Procedures Are Available**

232. As described in the previous subsections of this Part VI, Article 4 of China’s Copyright Law denies the protection of the Copyright Law to works whose publication or distribution in China has not been authorized or is otherwise prohibited. One additional consequence of this

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<sup>141</sup> The presence of the word “work” in the final sentence of Article 37 (relating to performances) but its absence from the analogous sentence in Article 41 (relating to sound recordings) also raises questions about the consistency of the use of the word “work” in the Copyright Law.

<sup>142</sup> We note, however, that this provision of the Copyright Law does not use the terminology of Article 14.2 of the TRIPS Agreement. For example, the concept of “direct or indirect reproduction” is not expressed in so many words in the Copyright Law. The United States reserves its rights with respect to any divergences between the Copyright Law and China’s TRIPS Agreement obligations in this connection.

<sup>143</sup> See, e.g., Article 36 of the AV Regulation and paragraph 82 above.

denial of protection is that the provisions of Chapter V (“Legal Liability and Enforcement Measures”) of the Copyright Law are unavailable with respect to such works.

233. Chapter V provides procedures and remedies for actual and threatened copyright infringement. To give some examples:

- Chapter V provides (in articles 46 and 47) that infringers bear civil liability for infringements.
- It provides (in article 48) that copyright owners, and owners of related rights, are entitled to damages for the actual losses arising out of the infringement.
- It provides (in article 49) that, in some circumstances, the owner of a copyright or a related right may obtain a court order to stop an infringement that is being committed or is about to be committed.
- It provides (in article 47) that at least for some categories of infringement, the Chinese authorities may take action to halt the infringement, seize infringing copies, and confiscate the materials and tools used to perpetrate the infringement.
- With respect to certain acts of copyright and related infringement, Chapter V provides (in article 47) that, “where the act constitutes a crime,” the act may be prosecuted criminally.<sup>144</sup>

234. Article 4 of the Copyright Law, however, denies the protection of the Copyright Law to works whose publication or distribution in China is prohibited. For such works, Article 4 therefore means that none of the procedures and remedies in Chapter V is available.

235. The first sentence of Article 41.1 of the TRIPS Agreement provides that “Members shall ensure that enforcement procedures as specified in this Part [*i.e.* Part III of the TRIPS Agreement, which comprises Articles 41 through 61] are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements.” The “intellectual property rights covered by this Agreement” (as that term is used in TRIPS Agreement Article 41.1) include both copyright and related rights.

236. The “enforcement procedures as specified in this Part” (as that term is used in TRIPS Agreement Article 41.1) include, *inter alia*, civil judicial procedures concerning the enforcement of copyright and related rights (Article 42); judicial authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered because

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<sup>144</sup> The clause “where the act constitutes a crime” presumably refers to the provisions of Articles 217 and 218 of the Criminal Law discussed in Part IV of this submission.



of an infringement (Article 45.1); judicial authority to order a party to desist from an infringement (Article 44.1); judicial authority to order prompt and effective provisional measures to, *inter alia*, prevent an infringement of any intellectual property right from occurring (Article 50.1); judicial authority to order that materials and implements the predominant use of which has been in the creation of the infringing goods be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to minimize the risks of further infringements (article 46); and (as discussed in detail in Part IV above) criminal procedures and penalties to be applied in certain cases of copyright piracy (Article 61). To the extent that these procedures are made available in Chinese law, it is Chapter V of the Copyright Law that does so.

237. However, because of Article 4 of the Copyright Law, the enforcement provisions of Chapter V of the Copyright Law are unavailable for works, whose distribution or publication is not authorized or otherwise prohibited in China. Therefore, as a result of Article 4 of the Copyright Law, China fails to ensure that enforcement procedures as specified in Part III of the TRIPS Agreement are available under its law so as to permit effective action against infringements, including expeditious remedies to prevent infringement of copyrights and (to the extent covered by Article 4) related rights with respect to certain works, performances and sound recordings.

238. Furthermore, because criminal procedures under Article 47 of the Copyright Law are not available at all with respect to works whose distribution or publication in China is prohibited, no criminal procedures or remedies are available when piracy of those works occurs on a commercial scale. Consequently, notwithstanding the provisions of TRIPS Agreement Article 61, first and second sentence, China does not provide for or make available criminal procedures and penalties to be applied in certain cases of wilful copyright piracy on a commercial scale.

239. The consequences of the denial of copyright protection and enforcement have been described by China. During the 2004 transitional review of China's compliance with the TRIPS Agreement, China made the following statement to the TRIPS Council:

According to China's Copyright Law, works by a foreigner may be protected under an agreement concluded between China and the country or Member to which he belonged or under an international treaty, to which both Members were parties, even if they had not obtained marketing approval. For instance, in 2004, the National Copyright Administration of the People's Republic of China ("NCAC"), at the right owners' request, had undertaken special measures to confiscate pirated audio-visual products of the US film "Shrek 2," which had not yet gained access to China's market at that time. The relevant Articles stipulating punishment were Articles 5, 10, 21 and 25 in the Law on Unfair Competition.<sup>145</sup>

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<sup>145</sup> *Minutes of Meeting Held on 1-2 December 2004*, IP/C/M/46, circulated 11 January 2005, para. 203. (Exhibit US-57).

240. This statement describes the situation of a film that has not yet received the authorization required for distribution or projection in China, where pirated pre-release copies are already circulating within China. While the Chinese statement begins by reciting the proposition that a foreigner’s work that has “not obtained marketing approval” may be protected in accordance with the Copyright Law, the situation that China described does not support that proposition. The Chinese authorities did not act under the Copyright Law, even though the chapeau and paragraph 1 of Article 47 of that Law provide a legal basis for the authorities to confiscate copies of a work that infringes copyright and to institute criminal proceedings in situations where someone, *inter alia*, reproduces or distributes a work without the consent of the copyright owner. The protection of the Copyright Law was thus not applied with respect to the infringing copies in question.

241. Instead, the Chinese authorities acted under four articles of the Law on Unfair Competition.<sup>146</sup> However, those articles apply to unauthorized use or other violations of rights relating to trademarks (articles 5 and 21) and trade secrets (articles 10 and 25) – they do not relate to copyright.<sup>147</sup>

242. The unavailability of protection under the Copyright Law deprives the copyright owner of the remedies specifically designed to fit the problem of copyright infringement, particularly where content review has not been completed (or perhaps not yet even requested) and authorization to release the work within China has not been granted. During that period, before the protection of the Copyright Law has attached, legitimate copyright holders cannot avail themselves of the remedies against infringement that the Copyright Law contains, such as the remedies of requiring the infringer to “ceas[e] the infringing act” and to “eliminat[e] the effects of the act.”<sup>148</sup>

243. For all these reasons, the measures at issue are inconsistent with China’s obligations under Article 41.1 and Article 61, first and second sentence, of the TRIPS Agreement.

#### **D. Conclusion**

244. The foregoing sections of this Part VI have demonstrated that the first sentence of Article 4 of China’s Copyright Law is inconsistent with China’s obligations under Articles 9.1, 14, 41.1 and 61 of the TRIPS Agreement.

245. It is important to emphasize again that this denial of protection and enforcement leads to important consequences that undermine China’s own interest in reducing its very high levels of

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<sup>146</sup> (Exhibit US-58).

<sup>147</sup> It is also noteworthy that China describes this situation as one in which Chinese authorities “had undertaken special measures.” The United States is of course pleased that the Chinese authorities were able to find a means of assisting the right holders of the film in question. The fact remains, however, that – as China’s reference to “special measures” makes clear – they are, by definition, not available on a regular basis to all copyright right holders.

<sup>148</sup> Copyright Law, article 47, chapeau.

copyright piracy: By denying copyright protection and enforcement to works that have not been submitted for content review, or that have not yet completed the content review process, or that have been required to be changed as a result of content review, China deprives both itself and legitimate right holders of tools designed to fight piracy. Furthermore, those tools go missing at a particularly crucial time for the authors and legitimate rights holders of many creative works. Pirates, not the right holders, are the first to supply the demand for the newest and the latest – such as the “movies I want to watch immediately,” in the words of one Chinese consumer. Pirates thus reap the economic benefits of others’ works at a time when those benefits are high – that is not a time that tools for combating piracy should be lacking.

246. For all the reasons set out in this part VI, the United States requests that the Panel find that the first sentence of Article 4 of China’s Copyright Law is inconsistent with China’s obligations under the TRIPS Agreement.

## **VII. CONCLUSION**

247. For the reasons set forth in this submission, the United States respectfully requests the Panel to find that China’s measures, as set out in the U.S. panel request, are inconsistent with China’s obligations under the TRIPS Agreement. The United States further requests, pursuant to Article 19.1 of the DSU, that the Panel recommend that China bring its measures into conformity with that Agreement.