

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

(WT/DS362)

**EXECUTIVE SUMMARY OF THE ORAL STATEMENT OF THE UNITED STATES OF
AMERICA AT THE FIRST SUBSTANTIVE MEETING OF THE PANEL**

April 28, 2008

I. China's Criminal IPR Thresholds for Criminal Procedures and Penalties

1. While Part III of the TRIPS Agreement deals with a number of enforcement procedures, such as civil, border, and administrative measures, Article 61 is the only provision that focuses on criminal penalties and procedures. And conversely that also means that only criminal penalties and procedures can fulfill the obligations in Article 61.

2. The words “at least” in the first sentence of Article 61 lay a floor for WTO Members. Providing for criminal procedures and penalties to be applied *in some cases* of “wilful trademark counterfeiting and copyright piracy on a commercial scale,” but not in others, does not fulfill the obligations in Article 61. China appears to argue that this Panel’s scrutiny of its implementation of the TRIPS Agreement standards on criminal procedures and penalties is somehow inappropriate because it concerns criminal law. However, like all WTO Members, China has agreed to ensure that its criminal laws against piracy and counterfeiting meet TRIPS Agreement standards.

3. China also appears to argue that Article 1.1 and Article 41.5 permit it to “define” the standards of Article 61 based on its own method of implementation and its own enforcement resource constraints. Article 1.1 deals with the *method* of implementing China’s TRIPS Agreement obligations, not *whether* they should implement them in the first place. Article 41.5 is concerned with similar issues. Articles 1.1 and 41.5 do not alter the obligations in Article 61, and China must implement Article 61 in a way that respects its terms.

4. Turning to “on a commercial scale” in Article 61: *First*, by using the term “commercial scale,” the TRIPS Agreement makes clear that WTO Members must criminalize acts of infringement that reach a certain extent or magnitude. *Second*, in using the term “commercial scale,” the TRIPS Agreement draws a link to the commercial marketplace – where business-minded IPR infringers take the fruits of their counterfeiting or piracy.

5. According to China, the U.S. position is that commercial scale only means commercial purpose. That is not the U.S. view; indeed, such an interpretation would read the word “scale” out of the term. That said, an infringer engaged in pursuing financial gain in the marketplace is acting on a “scale” that is “commercial.” And, the “scale” of what is “commercial” in each market will vary by many factors, such as the object of the infringement and the market for the infringed items.

6. While China alleges that we wrongly interpret “commercial scale” by looking at the ordinary meaning of the individual words “commercial” and “scale, the U.S. interpretation is based on the customary rules of interpretation of public international law.

7. China proposes to replace the term “commercial scale” with a phrase that TRIPS Article 61 does not contain: “a significant magnitude of activity,” but this proposal reads “commercial” out of Article 61. China relies upon a discussion of this term by a WIPO Committee of Experts on Counterfeiting and Piracy in 1988. It is unclear what status this document has under the *Vienna Convention* rules; and in any case, the WIPO Committee’s document provides confirmation of the interpretation suggested by the United States.

8. China fails to make criminal procedures and penalties available for all wilful trademark counterfeiting and copyright piracy on a commercial scale because its criminal IPR thresholds create

a safe harbor for pirates and counterfeiters. The first fundamental problem is that China's thresholds are set at such a level, and calculated in such a way, that they preclude prosecution or conviction of infringing activity involving values or volumes that are below the thresholds but are still "on a commercial scale."

9. With respect to the Article 213 trademark counterfeiting thresholds, there are many classes of commercial scale activity that take place under those thresholds. Indeed, the "illegal business volume" threshold directs Chinese prosecutors and judges to base this calculation on the prices of counterfeit goods as a default. As many commercial activities in legitimate markets, such as personal care products, take place where the value of the goods involved is less than the RMB 50,000 "illegal business volume" thresholds, the commercial scale activities involving *counterfeit* goods of these types will routinely involve values below that threshold.

10. Another example is demonstrated by the RMB 30,000 "illegal gains" threshold. This threshold can similarly miss many classes of commercial scale activity, and thus, requiring a profit level of RMB 30,000 will not capture all "commercial scale" activities.

11. Similar safe harbor problems exist with the Articles 214 and 215 thresholds as well as China's thresholds for copyright piracy. For example, the Article 217 500-copy threshold excludes acts of commercial scale piracy, as a copyright pirate that makes 499 reproductions or a retailer that stocks 499 copies in a store could not be prosecuted or convicted on that basis under Article 217.

12. The second fundamental problem is that Chinese authorities must rely on a limited set of one-size-fits-all tests to find commercial scale counterfeiting and piracy that can be subject to criminal prosecution or conviction. A range of considerations should be probative of "commercial scale," but China's rigid criminal thresholds preclude their use. They are ill-adapted to the diversity of commercial activity and allow commercial scale counterfeiting and piracy to escape prosecution.

13. China does not explain or justify how its boundaries of criminal liability capture all commercial-scale counterfeiting and piracy. China's choices for its *non-IPR* criminal thresholds has no bearing on this Panel's assessment of whether China meets its obligations under *Article 61 of the TRIPS Agreement*. China's argument that its "evidentiary" provisions should not be subject to Article 61 scrutiny is without merit; whether calculated over one hour or over many years, China's thresholds create a safe harbor. China concedes that if an administrative penalty in a prior seizure action is applied (often China's preferred remedy), it wipes the slate clean and those prior seizures could not be counted on to meet the thresholds.

14. The CCA Report submitted by the United States illustrates the safe harbor created by China's thresholds. *First*, it provides an example of the scale of commerce in China for certain pirated products. *Second*, it shows significant quantities of retail sales of infringing product take place in China at levels below China's thresholds. *Third*, a comparison of two sets of "below-the-thresholds" seizure charts in the U.S. submission shows 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.

15. China’s criminal IPR thresholds are also inconsistent with the second sentence of Article 61 and Article 41.1. China confirms that if the Panel finds that China’s criminal IPR thresholds are inconsistent with the first sentence of Article 61, it must also find an inconsistency with the second sentence of Article 61 and Article 41.1. We also disagree with China’s unsupported assertion that the United States bears an “especially high burden of proof in advancing this claim.”

II. China’s Border Measures for Disposal of Confiscated Goods

16. Article 59 provides in pertinent part that the “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.” For the purposes of this dispute, this requires focus on two of the sentences in Article 46. *First*, a Member’s competent authorities for border enforcement “shall have the authority to order that goods that they have found to be infringing be . . . disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, or . . . destroyed.” *Second*, “[i]n 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.”

17. Contrary to Article 59, China’s Customs authorities lack the requisite authority to order the destruction or disposal of infringing goods in accordance with these Article 46 principles. This is because Article 30 of the Customs IPR Implementing Measures, which implements Article 27 of the State Council Customs IPR Regulation, sets out a compulsory sequence of steps that Customs must follow in deciding how to treat seized goods that it determines infringe intellectual property rights.

18. China states that Article 59 does not require a grant of unconditional authority to its agencies. However, the TRIPS rules do not *require* China to destroy or dispose of all such goods in accordance with the principles in the first sentence of Article 46. The pertinent issue is whether Customs is permitted by law to make decisions in particular circumstances. “Authority” means that China Customs should have the *power* to choose among any of the options – in accordance with the Article 46 principles – from the outset when the goods are found to be infringing, and thereafter until the goods are finally dealt with.

19. In the initial step of the compulsory hierarchy, Customs must decide whether the infringing goods can be used for “public good.” If the answer is yes, Customs must either give the goods to a “public welfare organization” or Customs may instead allow the right holder to purchase the goods “for compensation.”

20. China has confirmed that donation to “public welfare organizations” will not be available if the goods are unsuitable for donation. In cases where the goods are suitable, the United States is pleased to learn that China Customs has donated seized goods to charities such as the Red Cross of China. China further cites to a general obligation to “implement necessary supervision” when goods are used for “social welfare purposes.” However, Article 17 of the Law on Donation for Public Welfare (Exhibit US–59) authorizes public welfare organizations to sell donated goods on the

market in some cases. This demonstrates that China’s donation option does not ensure that the goods remain outside the channels of commerce and avoid harm to the right holder.

21. Where donation is not appropriate, Chinese authorities must offer the infringing goods for sale to the right holder. This mandated action does not permit disposal “in such a manner as to avoid any harm caused to the right holder,” as Article 46 requires, as by paying for such goods, right holders will suffer financial harm in the form of payment for goods that infringe their rights.

22. Where transfer to a public welfare organization is unavailable, and the right holder does not purchase the infringing goods, the Customs authorities must turn to the public auction step. China’s public auction does not comport with the principles incorporated into Article 59. Putting seized goods up for public auction introduces them into the channels of commerce and does not dispose of them in a manner that avoids any harm to the right holder. China does not contest that its public auction is introduction into the channels of commerce. On these grounds alone, however, the mandatory auction provided by China’s measures is inconsistent with the Article 46 principles.

23. China asserts that right-holders’ formal right to comment before the auction assists in avoiding harm to the right holder. However, that is not a right to *prevent* the goods from being auctioned. A public auction can cause great harm to the right holder, since the infringer or importer can simply purchase the seized goods at the auction.

24. With respect to counterfeit trademark goods in particular, this public auction step is also inconsistent with the principle in the fourth sentence of Article 46, which provides that goods can be introduced into the channels of commerce after removal of the unlawfully affixed trademarks only “in exceptional cases.” China’s claim that the obligation is not a principle within the meaning of Article 59, is at odds with its plain meaning. China does not cite limiting language in Article 59 that selectively incorporate the obligations in Article 46.

25. Only if auction is not possible does China Customs gains the power to destroy the infringing goods. We recall that China’s measures ensure this step will not be reached if any of the previous options are available. Therefore, in those situations, Chinese customs authorities are not, as a matter of Chinese law, authorized to destroy the infringing good.

26. China argues that it has “substantial discretion” to determine that an infringing good is not suitable for the disposal options and therefore has authority to order destruction. However, China’s Customs Implementing Measures states that when certain facts are present, Customs officials must dispose of the goods only in the manner stipulated. In each of those circumstances, Chinese customs authorities lack the authority to order the destruction of infringing goods.

III. Article 4 of China’s Copyright Law

27. Article 4, first sentence, provides that “[w]orks the publication or distribution of which is prohibited by law shall not be protected by this Law.” China’s first submission has not resolved a

number of concerns about the *legal* operation of Article 4 – the text of which provides a clear and straightforward denial of copyright protection. China’s focus on the actions of its NCAC leaves unresolved the concerns that, as a matter of law, the first sentence of Article 4 denies copyright protection to works whose content is still being reviewed.

28. Most importantly, the Chinese submission appears to concede that Article 4 is TRIPS-inconsistent. China admits that the first sentence of Article 4 denies protection to works whose contents are prohibited. Moreover, the NCAC confirms that, for the purpose of administrative proceedings, Article 4 denies copyright protection to “works whose contents are illegal.” China therefore appears to confirm that it denies copyright protection to works containing illegal content that Chinese authorities determine is prohibited by law.

29. Indeed, contrary to China’s obligations under TRIPS Article 9.1 (and the provisions of the Berne Convention referenced in Article 9.1), Article 4 denies copyright protection to works that are entitled to such protection. Berne Article 2(1) states that works protected by the Convention include “*every* production in the literary, scientific and artistic domain . . .” (emphasis added), and Article 2(6) further states that these works must enjoy copyright protection everywhere that the Berne Convention applies. Article 4’s blanket exclusion for certain illegal works, therefore, is inconsistent with the Berne Convention.

30. Moreover, because Article 4 denies copyright protection to certain works, the set of exclusive rights in Article 10 of China’s Copyright Law are also denied to such works. As a result, Article 4 does not comply with the requirements of Berne Article 5(1), which specifies certain guaranteed exclusive rights. And indeed, without copyright protection, right holders cannot enforce their rights in the work. Therefore, authors of the works also do not benefit from the remedies for infringement specified in Articles 46 and 47 of the Copyright Law. Accordingly, China is not in compliance with its obligations under Article 41.1 and Article 61, first and second sentence, of the TRIPS Agreement.

31. China has not addressed the U.S. concerns about the impact of content review on copyright protection. *First*, the United States is not in a position to accept that the NCAC’s actions are a definitive interpretation of Article 4, at least with respect to China’s TRIPS obligations to afford criminal and civil remedies for copyright infringements heard by the courts and procuratorate. *Second*, with respect to the *Zheng Haijin* case, it is not clear why this document is responsive to the U.S. arguments; according to the NCAC, the publisher in question had violated Chinese laws on book publication numbers, not Chinese laws regarding content. *Third*, courts apply the law in cases under adjudication, and not the NCAC. In fact, China’s Supreme People’s Court issued a guidance document (Exhibit US-60) in this case, and appears to have considered that copyright protection was contingent on the work’s successful completion of content review.

32. To the extent that the first sentence of Article 4 makes the exercise and enjoyment of copyright rights in civil and criminal matters dependent upon the successful completion of some type of content review, Article 4 appears also to be inconsistent with Berne Article 5(2), and thus, inconsistent with Article 9.1 of the TRIPS Agreement for that reason as well.