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

(WT/DS362)

COMMENTS OF THE UNITED STATES OF AMERICA
ON THE RESPONSES OF THE PEOPLE'S REPUBLIC OF CHINA
TO THE SECOND SET OF QUESTIONS BY THE PANEL TO THE PARTIES

July 21, 2008

1. The United States appreciates this opportunity to comment on China's responses to the questions posed by the Panel following the second substantive meeting with the parties. Many of the points China raises have already been addressed by the United States in prior written and oral submissions or are not relevant to the resolution of this dispute. In the comments below, the United States will focus primarily on points that China raises that are pertinent to the resolution of this dispute and/or that have not been addressed in prior U.S. submissions. The absence of a U.S. comment on an aspect of China's response to any particular question should not be understood as agreement with China's response.

A. CRIMINAL CLAIMS

Q55. In its response to Question no. 13, China acknowledged that the Judicial Interpretations reflected in the 2001 Prosecution Standards rendered prosecution below the relevant thresholds "legally impossible". Can China confirm that the same is therefore true for the current IPR thresholds in the 2004 and 2007 Judicial Interpretations? CHN

2. In its response to Question 55, China expressly confirms that if an "act does not meet one of the pertinent thresholds [under the 2004 and 2007 Judicial Interpretations], prosecution against that act is legally impossible."[1] As the United States has demonstrated, contrary to the first sentence of Article 61, China's thresholds do not permit prosecution or conviction of many classes of "commercial scale" piracy and counterfeiting.[2]

3. Moreover, China also confirms that the "other serious circumstances" thresholds in Article 1, 3 and 5 of the December 2004 Judicial Interpretation can only be used to capture infringing activity that meets or exceeds the other enumerated thresholds, as its response to this question[3] confirm its previous assertion that such thresholds would "allow a court to determine that a particular act, while not meeting the other defined thresholds, is *comparable* and *equivalent* to those thresholds . . . ."[4]

Q56. Do the thresholds applicable under Articles 213-215, 217 and 218 of the Criminal Law also apply to joint crimes under Articles 25, 26 and 27 of the Criminal Law? CHN

4. In its response to Question 56, China states that "Chinese law considers the aggregated scale of the criminal act that is jointly committed in ascertaining whether a specific threshold has

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[1] Responses of the People's Republic of China to the Second Set of Questions of the Panel, para. 1 (hereinafter "China's Responses").

[2] *See, e.g.*, First Submission of the United States, paras. 116-142.

[3] China's Responses, para. 2.

[4] Responses of the People's Republic of China to the First Set of Questions of the Panel, para. 35. (Emphasis added).

been met."[5] China thus confirms the U.S. view that such "joint crimes" under China's Criminal Law can only capture below-the-thresholds activity if it exists as part of above-the-thresholds activity.[6]

Q57. Please list every offence in Parts III and V, and in Section 9 of Part VI, of the Criminal Law that is not subject to a specific conviction threshold (other than the general provision in Article 13). CHN

5. China's response to Question 57 reveals that, despite China's statements throughout this proceeding regarding the alleged impact of lowering its thresholds and accusations that the U.S. view on Article 61 would require it to "eliminate the thresholds," China's criminal law system is not solely reliant on the use of thresholds to define criminal liability. What is more, we note that China says only that "*for the most part*" its threshold-less crimes implicate "significant threat[s] to public order."[7] The clear implication of China's answer is that it is possible to have a threshold-less crime even where the threat to public order is not "significant."

6. Finally, we would like to recall our view that China's non-IPR criminal thresholds have no bearing on whether China meets its international obligations under the first sentence of Article 61 of the TRIPS Agreement.[8]

Q58. Do you agree that at the time of the TRIPS negotiations "in the great majority of national laws, the expression 'for commercial purposes' was the most widely used." (CHN-72, §61). Please provide evidence of those TRIPS negotiating participants' national laws that used a "commercial purpose" test, and those that did not, at the time of the TRIPS negotiations. US, CHN

7. China's response to Question 58 makes it clear that it agrees that "commercial scale" – the standard ultimately chosen by the negotiators of the TRIPS Agreement – is not the same as "commercial purpose," and the choice of "commercial scale" over "commercial purpose" was a deliberate one.[9] However, the United States would comment on certain aspects of China's response.

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[5] China's Responses, para. 3 (Emphasis omitted).

[6] U.S. Oral Statement at the Second Panel Meeting, para. 35.

[7] China's Responses, para. 8.

[8] Second Submission of the United States, paras. 100-101.

[9] China's Responses, para. 19.

8. The United States notes that China's sampling of national laws in fact demonstrates that they contain a diversity of standards for criminal liability to attach – and proof of "commercial purpose" (or as China also states, "the functional equivalent") is not in reality the common standard among these laws. These laws provide examples of a range of standards used by countries – sometimes combining a number of such standards to address different factual predicates – to determine criminal liability for copyright infringement. Key factors include, among others, intentional copyright infringement, infringement that affects prejudicially the owner of a copyright, and infringement "by way of trade."

9. China does acknowledge this feature in its response, as it "does not assert that the national laws discussed below exclusively use a commercial purpose or other standard in their criminal law."[10] Yet, this sampling also demonstrates that China's statement that "many countries appear to have used a general commercial purpose test in some part of their copyright law"[11] is misleading. Indeed, many of the national laws cited by China – including Australia, Canada, India, Japan, and Turkey – do not appear to require a "commercial purpose" or "profit-motive" as the sole criterion to determine criminal copyright liability.

10. Moreover, in certain cases, China's citation to certain provisions in the national laws it has selected[12] appear to be incomplete and not entirely relevant or on point with the issues at hand. For example:

- Sweden – The provision cited by China in its responses deals with an offence relating to the removal or circumvention of protection of a computer program – it is not an offense of copyright infringement. We would note that Article 53 of Sweden's Act on Copyright in Literary and Artistic Works 1960, provides that "[a]nyone who, in relation to a literary or artistic work, commits an act which infringes the copyright enjoyed in the work under the provisions of Chapters 1 and 2 or which violates directions given under Article 41, second paragraph, or Article 50, shall be punished by fines or imprisonment for not more than two years, if the act is committed *wilfully* or with gross negligence."[13]

- United Kingdom – China refers to an excerpt from a provision in UK Copyright, Designs and Patents Act 1988 dealing with the remedies for infringement of a design right. We would also observe that Article 107 of the Act criminalizes the act of making "for sale or hire" or distributing an infringing work "in the course of business" but also criminalizes

[10] China's Responses, para. 13.

[11] China's Responses, para. 19.

[12] China has provided excerpts to these national laws in Exhibit CHN-195.

[13] (Emphasis added).

distributions "to such an extent as to affect prejudicially the owner of the copyright." (The United States has provided a copy of this provision in Exhibit US-78 attached.)

Australia – We would note that section 132(2) of Australia's Copyright Act 1968 also criminalizes distributing an infringing copy of a work "for any other purpose to an extent that affects prejudicially the owner of the copyright . . . ."

Canada – We would observe that section 42(1)(c) of Canada's Copyright Act 1985 also provides criminal liability for distribution of "infringing copies of a work . . . to such an extent as to affect prejudicially the owner of the copyright . . . ."

India – While China cites to a criminal penalty mitigation section in India's Copyright Act 1957, it bears mentioning that, under section 63, "[a]nyone who knowingly infringes or abets the infringement of – the copyright in a work" is subject to criminal liability.

Japan – China's excerpts of Japan's Copyright Law 1970 provided to the Panel are incomplete. In fact, Article 119 of the Copyright Law provides, in relevant part, that any person who infringes "copyright, right of publication or neighboring rights" shall be punishable by imprisonment for a term not exceeding three years or a fine not exceeding three million Yen. (The United States has provided a copy of this provision in Exhibit US-79 attached.) Article 120*bis*, which is cited by China, appears to refer to criminal liability for offences related to rights management information and circumvention of technological protection measures.

Turkey – We would also note that Turkey's Law on Intellectual and Artistic Works 1951 provides criminal copyright liability without the need to prove a "commercial purpose." Article 72, under the heading "Violation of Financial Rights," provides for criminal liability for infringement of copyright (including anyone who illegally "[d]uplicates a work in any way" or "sell[s] or supplies for sale or circulation the copies of a work or its adaptations duplicated by himself") carried out intentionally and without the written consent of the right holder. Article 73.l – which is cited by China – appears to provide "other offences" in addition to Article 72.

Netherlands – While China cites to Article 32 of the Copyright Act 1912, we would also note that Article 31 of the Act provides that "[a]ny person who intentionally infringes another's copyright shall be punishable by imprisonment not exceeding six months or by a fine not exceeding 25,000 guilders."

11. The United States would also observe that in certain cases, the national laws provided by China are from Third Parties that agree with the U.S. view that "commercial scale" requires an assessment of relevant factors.[14]

Q68. What other sources are there of ordinary uses of the phrase "commercial scale"? These uses may be with or without the word "production" but should be in the context of a product, not a whole industry. Please provide examples of such uses. US, CHN

12. In its response to Question 68, China selectively cites to a number of purported "ordinary usage[s]" of "commercial scale" in press releases and government filings of companies.[15] The reliance on such phrases is mistaken for a number of reasons. *First*, we would respectfully reiterate that such uses of the phrase "commercial scale" are simply not relevant to the Panel's interpretation of Article 61, in that there is no evidence that the TRIPS negotiators distilled any sort of "common usage" of "commercial scale" from such sources[16] when arriving at their consensus concept. Nor is there any evidence that "commercial scale" was assigned a special meaning under the customary rules of treaty interpretation reflected in Article 31(4) of the *Vienna Convention*.

13. *Second*, China's discussion of the terms "commercial scale production," "commercial scale facility," and "commercial scale manufacturing" in its answer to this question does not assist in understanding the meaning of "on a commercial scale" in Article 61. The filings and press releases that China has submitted come from publicly-traded corporations in the United States with reporting obligations under U.S. securities laws. If a publicly-traded enterprise uses "commercial scale" in a press release or government filing, it is a function of that company's own lexicography – and every such company may have its own purposes for using "commercial scale." Indeed, the statements in China's exhibit do not appear to be using "commercial scale" in the same fashion or manner. If anything, the fact that such companies are using "commercial scale" in different contexts supports the conclusion that an assessment of "commercial scale" must be context-specific.

14. Moreover, these corporations are raising capital on the capital markets and seek to ensure a return on shareholder investment. Indeed, the use of the term "commercial scale" in the documents in China's exhibit must be understood in that context: for such a company, and particularly in a filing or press release such as the ones submitted by China, whether a manufacturing activity is "commercial scale" may well mean whether the activity is undertaken

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[14] *E.g.*, Third Party Submission of Australia, paras. 18-19; Third Party Submission of Canada, paras. 5-7.

[15] China's Responses, para. 21.

[16] Indeed, it would appear that none of the uses cited by China in Exhibit CHN-196 are contemporaneous with the negotiation of the TRIPS Agreement.

on a scale, or at a level of economic efficiency, that allows that public company to make a return on investment or profit for its shareholders. As used in the short extracts from the public company documents that China has submitted, the phrase "commercial scale" does not appear related to the markets for the products in question. As we have explained, however, "commercial scale" piracy or counterfeiting is piracy or counterfeiting on a scale that is commercial within the market for the goods infringed.

15. *Third*, it is also worth underscoring that the word "scale" in the term "commercial scale" requires an assessment of the magnitude, extent, or degree, relative to a "commercial" standard, not the "significant" standard that China postulates.[17] (The United States has also demonstrated why China's interpretation of "commercial scale" fails to withstand scrutiny.[18])

Q69. Do you consider that patent applications using the phrase "commercial scale" in the PCT, USPTO, European Patent Office and other databases could be relevant to the interpretation of that phrase as used in Article 61 of TRIPS? If so, please submit a substantial number of patent abstracts that use this term and explain what you believe that they show about the ordinary meaning of "commercial scale". US, CHN

16. In its response to Question 69, China repeats the same mistaken arguments as in its response to Question 68 above. As we have noted, the United States respectfully does not view the presence or absence of "commercial scale" in individual patent applications in WTO Members as necessarily shedding light on the ordinary meaning of "commercial scale" in Article 61, first sentence, of the TRIPS Agreement.

17. While China claims that these purported "examples"[19] of "commercial scale" provide support for its flawed interpretation, all they show is that China continues to improperly inject other, unrelated concepts into "commercial scale" in Article 61 – such as "cultivation on a commercial scale," "commercial scale composition," or "gram scale production." There is no indication at all in the documents that China has submitted of what these patent applicants meant by their use of the phrase "commercial scale," and thus these materials provide no assistance to understanding the term in TRIPS Article 61 of the TRIPS Agreement.

18. Moreover, China's statements in this regard are revealing. After continuing to repeat its mistaken interpretation of "commercial scale," China tellingly admits that, in the context of its interpretation, the "magnitude is not necessarily objectively high; but is relatively high in the

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[17] First Submission of the United States, para. 109.

[18] *E.g.*, Second Submission of the United States, paras. 17-39; Oral Statement of the United States at the Second Panel Meeting, paras. 10-22.

[19] Exhibit CHN-197.

context of the operation involved."[20] As the United States has noted, based on its ordinary meaning, what qualifies as "commercial scale" piracy or counterfeiting will vary among product and market, and therefore, what is "commercial scale" can be determined using factors relevant to a particular situation.[21]

Q70. It appears that the patent laws of various countries at the time of the TRIPS negotiations used the phrase "commercial scale" in their non-working provisions. Do you consider that these shed light on the intention of the TRIPS negotiators when they used that phrase in Article 61? If so, please indicate how those laws defined "commercial scale" and any relevant jurisprudence. US, CHN

19. In its response to Question 70, China repeats the same mistaken arguments as seen in Questions 68 and 69 above. As we have noted in our response to this question, the United States respectfully does not view the presence or absence of "commercial scale" in Members' patent laws as shedding light on the intention of the TRIPS negotiators when they arrived at the consensus concept of "commercial scale." We also observe that paragraph 31 of China's responses supports the point made by the United States in our answer: namely, "working" requirements serve a specific patent law-related policy purpose, and that is the reason why it is unclear whether they would be a relevant source to consider the meaning of "commercial scale" in Article 61 of the TRIPS Agreement.[22]

20. Moreover, China's repeated attempts to inject other concepts – such as manufacturing or production – into the meaning of "commercial scale" in Article 61 should again be disregarded. As we have argued, "commercial scale" does not refer to a "significant quantity" or "significant magnitude" – it is <u>trademark counterfeiting and copyright piracy</u> "on a commercial scale" that must be criminalized under Article 61.

B. CUSTOMS CLAIMS

Q74. Please respond to the US statement regarding the Law on Donations for Public Welfare in light of the Contract Law (US SOS para. 52 and Exhibits US-73 and US-74). CHN

21. China's response to this question regarding the Law on Public Donations follows a flawed line of reasoning. At the end of the day, China fails to demonstrate that the mandatory hierarchy contained in the Chinese measures at issue provides China Customs authorities with

[20] China's Responses, para. 25.

[21] *E.g.*, Responses by the United States to the First Set of Questions by the Panel, para. 29; Closing Statement of the United States at the Second Meeting of the Panel, paras. 10-11.

[22] Responses by the United States to the Second Set of Questions by the Panel, para. 29

the scope of authority required by the Article 46 principles incorporated into the first sentence of Article 59.

22. *First*, a fundamental point: China Customs' entry into a donation agreement does not show that it has the requisite Article 46 authority. To the contrary, it demonstrates a lack of proper authority. China Customs cannot mandate the result it wants; rather, it has to persuade a charitable organization both to enter into a donation agreement and to agree that it will not try to resell the goods. Moreover, where there is no donation agreement in place, China Customs likewise does not have the requisite authority under the Article 46 principles.

23. *Second*, as we have explained, even when a donation agreement is in place with language indicating that the charitable organization must prevent diversion of the goods into commerce, the Law on Public Donations appears to allow sale into the channels of commerce when certain exigencies are present. China notes the phrase "purpose of use" in Articles 12 and 18 of this Law and indicates that these Articles demonstrate that donation agreements may require the donee to adhere to the "purpose of use" specified in the agreement.

24. However, China then asserts that "purpose of use" means the goods cannot be sold, but actually always have to be "used" as is. This conclusion is at odds with the words China cites. Requiring the donee to "use" the goods is not the same as requiring the donee to operate in a manner that is consistent with the "purpose of use." Indeed, Article 17.4 is perfectly consistent with the requirement that a donee remain faithful to the "purpose of use." As Article 17.4 states, "[w]here the property donated is not preservable or transportable or exceeds the actual need, the donee may sell it, but all the income therefrom shall be used towards the aim of the donation."

25. We would also note that Article 17 of the Law on Public Donations utilizes just the word "use" to describe the actual use of the goods; this highlights the divergence between "use" and the term "purpose of use" featured in Articles 12 and 18.

26. Additionally, contrary to China's claims, its Contract Law does appear to be relevant in this context. First, China does not dispute that the Contract Law is applicable to an agreement such as the Red Cross Memorandum. Second, China does not provide any credible basis for asserting that the Contract Law provisions do *not* apply to the Law on Public Donations. First, Article 52(v) of the Contract Law provides that "[a] contract is invalid in any of the following circumstances: . . . (v) The contract violates a compulsory provision of any law (*falv*) or administrative regulation (*xingzhengfagui*)." Article 17.4 appears to qualify as a compulsory provision, because it provides a right which must be respected – that is, a charitable organization, in certain circumstances, has the right to sell donated goods.

27. Even if the provision of a definite right did not qualify as a "compulsory provision," Article 123 of the Contract Law would apply. Article 123 states that "[w]here another law (*falv*) provides otherwise in respect of a certain contract, such provisions prevail." This provision, on its face, applies to any laws in China that contain stipulations regarding contracts. The right in

Article 17.4 has been provided by a law promulgated by the National People's Congress – the highest organ of state power.[23] Accordingly, Article 123 of the Contract Law dictates that Article 17.4 of the Law on Public Donations takes precedence over any donation contract terms that do not give charitable organizations the right to sell donated goods when certain circumstances are present.

28. Finally, with respect to China's allegation that the United States must meet a "burden"[24] with respect to the Law on Public Donations, the United States would respectfully note that it is China that has raised the Law on Donations for Public Welfare as part of its defensive arguments.[25] Accordingly, it is China that bears the burden to demonstrate that this measure provides a defense to the U.S. claim in this dispute. As explained above, the United States believes that China's arguments regarding the Law on Public Donations and its impact on the Panel's assessment of China's compliance with Article 46 are without merit.[26]

Q76. Article 30 of the Customs IPR Implementing Measures (MAT-7) sets out donation and sale to the right holder as parallel options in a single Item, but sets out auction and destruction as consecutive options in Items 2 and 3. What is the legal effect of this difference in the structure of each Item? Does it show that the relationship between auction and destruction is not one of alternatives? CHN

29. In its response to Question 76, China confirms that the Customs IPR Implementing Measures reflect China's "ranking of preferred disposition methods" and that, in the context of its disposal hierarchy, auction comes before destruction.[27] (China notes that the legally available choices in this hierarchy may be influenced by other laws and regulations, but does not refute the fact that when auction is a legally available alternative, destruction is not an option.)

30. China's response also makes clear that China Customs' auction procedure serves as a revenue-generating mechanism for the government.[28] Thus, despite China's attempts to downplay the auction step in its hierarchy *vis-a-vis* the destruction step, it is clear that the

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[23] *See* First Submission of the United States, paras. 20-21.

[24] China's Responses, para. 35.

[25] *See, e.g.*, First Written Submission by the People's Republic of China, para. 161.

[26] *See, e.g.*, Second Submission of the United States, paras. 151-155; Oral Statement of the United States at the Second Substantive Meeting of the Panel, paras. 51-52.

[27] China's Responses, para. 46.

[28] China's Responses, para. 48 ("[Customs] would not choose auction in cases where the goods might lose their *commercial value* upon removal of the infringing features.") (Emphasis added).

placement of China Customs' auction procedures before the destruction step in the hierarchy reflects a deliberate policy choice.

31. The United States has also noted China's emphasis on the practical outcomes under this mandatory system for disposing of infringing goods. Assuming, *arguendo*, that China's arguments and statistics about the frequency of public auction are accurate and complete, and that in the last two years most infringing goods have been destroyed, it appears that it should be relatively easy for China to conform its laws to meet its obligations under the TRIPS Agreement.

32. In China's response to this question, China also attempts to draw in U.S. law when the Panel's question is clearly about China's measures. These efforts on the part of China should be disregarded, since China's measures, not the United States' measures, are at issue in this dispute. In addition, China's analogy between its TRIPS-inconsistent measures and U.S. law fails to withstand substantive scrutiny. Unlike China, the United States fully complies with the Article 46 requirements – indeed, the "conditions" that China refers to in U.S. law are not like China's measures in any respect. The U.S. regulation that China cites accurately reflects the required scope of Article 46 authority – including the regulation's requirement that U.S. Customs seek consent of the right holder to assure no harm to the right holder in taking any of the actions specified.[29] (The United States also refers the Panel to its comments to Question 82 below.)

Q82. In its response to Question no. 36, China states as follows: "Customs still has the authority to destroy the goods if, for example, it determines that auction would be detrimental to the public interest or to the lawful rights and interests of the right-holder, or that auction is otherwise inappropriate". What is the regulatory authority for such a determination? If it is the Law on Donations for Public Welfare, is that relevant to the auction option? CHN

33. In its response to Question 82, China repeats its argument that generally applicable laws may apply to Customs' disposition of infringing goods. As the United States has noted, the existence of general regulatory norms, including IPR related measures, that apply to Chinese officials' behavior do not alter the mandatory nature of the Customs disposal hierarchy in China.[30] Under the Customs IPR Implementing Measures, if Customs finds a certain set of facts, it is compelled to take a certain step – such as donation to a public welfare organization or sale by public auction.[31] Indeed, the United States has taken issue with the legal structure that governs China Customs' decision-making in certain circumstances. As the United States has demonstrated, China's public auction process does not comport with the Article 46 principles incorporated into Article 59.

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[29] *See* Exhibit CHN-102.

[30] Second Submission of the United States, para. 145.

[31] *See* Exhibits US-6, US-68.

Q84. Article 59, 2nd sentence of TRIPS applies to the disposition of counterfeit trademark goods not disposed of outside the channels of commerce or destroyed. Do you consider that the negotiators' concerns with respect to conditions for release of counterfeit trademark goods were limited to reexportation and transit but not importation? What would have justified such a limitation? CHN

34. With respect to China's response to Question 84, China argues that the second sentence of Article 59 only refers to "goods destined for re-exportation because the restrictions with respect to goods destined for permanent importation are either implicit in TRIPS or irrelevant." It is unclear how China arrives at this conclusion; but the United States recalls that Article 59 (entitled "Remedies") deals with the required scope of authority that must be given to Customs regarding goods that have already been found to be infringing. The first sentence of Article 59 provides 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." As we have previously stated, at a minimum, the United States believes that the first sentence of Article 59 relates to China Customs' authority to dispose of infringing goods that have been imported.

35. The second sentence of Article 59, places another obligation on a Member: "In regard to counterfeit trademark goods, the authorities shall not allow the re-exportation of the infringing goods in an unaltered state or subject them to a different customs procedure, other than in exceptional circumstances." While the United States does not express a view on the precise contours of this obligation, as it is not at issue in this dispute, it is clear that in addition to following the principles of Article 46 as incorporated by the first sentence of Article 59, border authorities in a Member must *also* comply with the obligations of Article 59, second sentence, with respect to counterfeit trademark goods that are destined for re-exportation. The elaboration of this additional obligation in the second sentence of Article 59 does not imply, however, any limitation on the scope of application of the principles of Article 46 as incorporated by the first sentence of Article 59.

Q86. With respect to Article 46, 4th sentence of TRIPS:

(a) If a Member permits disposal of counterfeit trademark goods into the channels of commerce only in exceptional cases, may the simple removal of the trademark be sufficient to permit such disposal in all such cases?

(b) Does one assess "exceptional cases" in terms of the *set of circumstances* or the *number of cases* in which simple removal of the trademark is sufficient? If the former, how does one assess whether circumstances are exceptional? US, CHN

36. In its responses to Question 86, China makes two unsupportable claims that the United States wishes to comment upon.

37. *First*, as the United States has previously explained, China has misread the text of the principle contained in the fourth sentence of Article 46.[32] China reiterates its mistaken view that this principle means that once the trademark is removed, the goods can return to commerce.[33] Accordingly, China appears to be saying that it can release such goods in *more* than "exceptional cases." Indeed, that view is simply contrary to the text. No amount of parsing can avoid the fact that the last sentence of Article 46 means what it says: Customs may not just remove the offending trademark from the goods and release such goods into the channels of commerce, *other than in exceptional cases*. China's measures at issue do not limit the release of counterfeit trademark goods into the channels of commerce to "exceptional cases."

38. The United States has provided its views[34] on the ordinary meaning of the principle in the fourth sentence of Article 46; and the meaning is unambiguous. Further, even if the statement by a representative of Japan during the TRIPS negotiations can be considered as a supplemental means of interpretation under the customary rules of interpretation reflected in the *Vienna Convention*, the citation to this statement does not support China's view of the policy behind this provision. That statement does not refer to return of seized goods to an infringer; rather it refers to "exceptional" as the exception to the norm of keeping these goods out of commerce. We would also note that Japan's statement was a unilateral statement made early in the negotiations and the representative from Japan was explaining a proposal[35] that does not reflect the text of Article 46. Therefore, it is highly questionable to what extent this statement could be considered useful as a supplemental means of interpretation under the customary rules of interpretation reflected in the *Vienna Convention* – even if resort to supplemental means were appropriate.

39. *Second*, nothing in the text of China's measures at issue ensures that release is only limited to an exceptional set of circumstances. As we have noted, one way to assess whether the set of circumstances contemplated is truly an "exceptional case" is to examine a Member's measures governing the disposal of confiscated goods to see if the measures specify that the release into commerce is to occur only exceptionally. However, the text of China's Customs IPR Implementing Measures provide for the opposite: they compel public auction if the infringing features of the products can be eliminated. The actions that China mentions, including a

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[32] *See, e.g.*, Second Submission of the United States, para. 136; Oral Statement of the United States at the Second Panel Meeting, paras. 44-46; Responses by the United States to the Second Set of Questions by the Panel, paras. 55-56.

[33] China's Responses, para. 63.

[34] *E.g.*, First Submission of the United States, paras.175-178; Responses by the United States to the First Set of Questions by the Panel, para. 66; Second Submission of the United States, paras. 134-138; Responses by the United States to the Second Set of Questions by the Panel, paras. 54-56.

[35] *See Proposal by Japan for 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/43/Add.1, circulated 30 October 1989, at p. 3 (Exhibit US-80).

purported "reserve price," do not alter this text. Indeed, the text of Article 46 fourth sentence broadly provides that the channels of commerce is the relevant end-destination to which a Member must prevent release – it does not narrowly apply to a class of potential buyers (*e.g.*, infringers).

C. COPYRIGHT CLAIMS

Q88. China asserts that Article 4(1) of its Copyright Law does not deny the "copyright" provided by Article 2 but only removes "copyright protection" (response to Question no. 44; rebuttal submission, paras. 280-281). Are those different concepts reflected in the wording of Articles 2(2) and 4(1) which read as follows (in the original version and MAT-11):

- **Article 2(2): (*5 characters*) ("shall be protected by this Law"); and**
- **Article 4(1): *(6 characters)* ("shall not be protected by this Law")? CHN**

40. In Question 88, the Panel asked whether or not the two allegedly different concepts of "copyright" and "copyright protection" are reflected in the wording of the two short pieces of text in China's Copyright Law, but China does not appear to have answered this question. Indeed, as indicated by the Chinese characters referenced in this question, the terms of China's own Copyright Law resist such an artificial distinction. Article 2.2 sets forth what "shall be protected by this law" and Article 4.1 is a category of works that shall *not* be protected by this law.[36] Further, as we have previously noted,[37] contrary to China's untenable theory, the Berne Convention and the TRIPS Agreement do not countenance a distinction between "copyright" and "copyright protection" – indeed, right holders are entitled to have their copyrights *protected*. (As the United States has also explained, this denial of protection is inconsistent with China's obligations under the TRIPS Agreement.[38])

Q89. Does the protection (a) provided by Article 2(2); and (b) denied by Article 4(1) of the Copyright Law, include the rights listed in Article 10 of the Copyright Law? CHN

41. In its response to Question 89, China confirms that the exclusive rights accorded to copyright holders are enumerated in Article 10 of the Copyright Law.[39] China also acknowledges

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[36] (Emphasis added).

[37] The United States has demonstrated that this purported distinction fails to withstand scrutiny. *See, e.g.*, Second Submission of the United States, paras. 179-180, 187-192, 211-213; Closing Statement of the United States at the Second Panel Meeting, paras. 24-25.

[38] *See* First Submission of the United States, paras. 217-219.

[39] China's Responses, para. 81.

that Article 4.1 of its Copyright Law is an "exception" that denies copyright protection to a "work [that] is found to be illegal."[40] The United States has demonstrated that this denial of protection is inconsistent with China's obligations under the TRIPS Agreement and China's arguments fail to withstand scrutiny.[41] (The United States would also refer the Panel to its comments to China's response to Question 88 above.)

Q90. On the basis of what provisions do the authorities decide that a copyright owner has, or does not have, the right to take enforcement action with respect to a particular work under Chapter V of the Copyright Law? CHN

42. In its response to Question 90, China largely reiterates previously-asserted arguments regarding the operation of Article 4.1. The United States would refer the Panel to its comments to China's responses to Questions 88 and 89 above. With respect to China's argument that "authorities" will only "assess Article 4.1 issues" if they are raised by an infringer, the United States has previously responded to this erroneous argument.[42]

43. The United States is also pleased to learn that China has confirmed the U.S. view that the phrase "prohibited by law" in Article 4.1 refers to works prohibited by other laws, including the Film Regulations.[43] China also notes that a "work that contains contents prohibited by such laws is a prohibited work within the meaning of Article 4.1."[44] Indeed, as the United States has shown, Article 4.1 thus provides a "formality" within the meaning of Article 5.2 of the Berne Convention and China's arguments regarding this claim are without merit.[45]

Q91. What events "trigger" the application of Articles 2(2) and 4(1) of the Copyright Law? In particular, in what circumstances would the *authorities* be called upon to take a decision that a work is (a) protected under Article 2(2); and (b) denied protection under Article 4(1)? CHN

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[40] China's Responses, paras. 81-82.

[41] *E.g.*, First Submission of the United States, paras. 217-219; Second Submission of the United States, paras. 180-181, 184-195, 221-222; Oral Statement of the United States at the Second Panel Meeting, paras. 65-74; Closing Statement of the United States at the Second Panel Meeting, paras. 24-25.

[42] *See, e.g.*, Oral Statement of the United States at the Second Panel Meeting, paras. 77-78.

[43] China's Responses, para. 86.

[44] China's Responses, para. 86.

[45] *E.g.*, Second Submission of the United States, paras. 196-214; Oral Statement of the United States at the Second Panel Meeting, paras. 75-79.

44. In its response to Question 91, China concedes that "a finding of valid copyright must precede a successful infringement claim."[46] Curiously, China does not define the phrase "valid copyright" in its responses to the Panel's questions. China does, however, in paragraph 105 of its Responses, acknowledge that "procedure[s] in any forum require[] an inquiry into whether there is a *copyrightable* work."[47] China also states that a "right holder must . . . satisfy an evidentiary burden that he or she holds a 'valid right.'"[48] Under Article 4.1, of course, a "valid copyright" cannot exist if the work is deemed "illegal" under China's content review regime. Accordingly, China's responses provide further confirmation that its Chinese "authorities" – including those sitting in adjudication over a copyright enforcement proceeding – must examine the contents of a work before deciding whether or not the copyright is protected.[49] As the United States has demonstrated, Article 4.1 thus provides a "formality" within the meaning of Article 5.2 of the Berne Convention and China's arguments regarding this claim are without merit.[50] (We would also refer the Panel to our comments to China's responses to Question 95 below.)

Q92. Please provide any text in the Copyright Law or any other law, any regulations, any evidence of application of the Copyright Law, judicial opinions, competent administrative agencies' opinions or copyright experts' opinions that substantiates China's submission that Article 4(1) of the Copyright Law does not deny the "copyright" provided by Article 2 but only removes "copyright protection". CHN

45. In its response to Question 92, the example that China provides in response to the Panel's question regarding China's untenable "distinction" is the NCAC's reply and the SPC guidance document in the *Zheng Haijin* case.

46. The passage in the NCAC reply was in response to the following question submitted to the NCAC: "[i]s Zheng Haijin *entitled* to the copyright of the [work]."[51] If China's theory is to be believed, the NCAC could have replied in the affirmative – as that would mean that the copyright existed. However, instead, the NCAC states that an author is entitled to copyright protection unless it is under the ambit of Article 4.1 (i.e., it is a "work[] the publication or dissemination of which [is] prohibited by law.") (Moreover, as the United States has also noted,

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[46] China's Responses, para. 88.

[47] (Emphasis added).

[48] China's Responses, para. 121.

[49] China's Responses, para. 84.

[50] *See, e.g.*, Second Submission of the United States, paras. 196-214; Oral Statement of the United States at the Second Panel Meeting, paras. 75-79.

[51] *See* Exhibit CHN-118.

the NCAC does not have the authority, as a matter of Chinese law, to issue interpretations of Chinese law for purposes of civil or criminal matters.[52])

47. Additionally, the United States fails to see how the SPC guidance document provides support for China's arguments. Indeed, there is nothing in the SPC guidance document distinguishing between "copyright" and "copyright protection."

48. Fundamentally, however, as the United States has noted in its comments to China's response to Question 88 above, despite China's arguments regarding a purported distinction under its domestic law, the Berne Convention and the TRIPS Agreement do not countenance a distinction between "copyright" and "copyright protection."

Q93. In light of your views on Article 17 of Berne, what is the purpose and effect of the *second* sentence of Article 4 of the Copyright Law? What is the relationship between the first and second sentences of Article 4 of the Copyright Law? In particular, which public policy concerns are addressed by the first sentence that could not be covered by the second sentence? CHN

49. With respect to China's responses, it does not appear that China has answered the final question posed by the Panel. In particular, China has not identified any public policy concerns addressed by the first sentence that the second sentence could not cover. China states that Article 4.2 may cover a broader set of concerns, but it does not state that the "illegal content" concerns of Article 4.1 would fall outside the ambit of "violation of the Constitution or laws" in Article 4.2. Indeed, the United States would recall that China has claimed that Article 4.1 denies protection to "illegal" works that have "unconstitutional" or "immoral" contents.[53] At bottom, China's responses show that Article 4.1 is solely concerned with denying copyright remedies to a sub-class of concerns covered by Article 4.2 – and as the United States has explained,[54] this is the core of our complaint: the *copyright* consequences of the policy choices that China has made.

Q94. China submits that Article 4(1) of the Copyright Law does not violate Article 41.1 of TRIPS:

(a) Does China provide enforcement procedures against acts of infringement of works denied "copyright protection" by Article 4(1) of the Copyright Law? If not, does China provide enforcement procedures against "any" act of

[52] Second Submission of the United States, para. 203.

[53] *See, e.g.*, First Submission of the People's Republic of China, paras. 243-244, 249.

[54] *E.g.*, Second Submission of the United States, para. 222; Closing Statement of the United States at the Second Panel Meeting, para. 27.

infringement of copyright covered by the TRIPS Agreement, as provided in Article 41.1 of TRIPS?

(b) Does China consider that Article 17 of Berne releases it from the obligation in Article 41.1 of TRIPS?

(c) Does government enforcement of bans on publication constitute enforcement procedures specified in Part III of TRIPS, as provided in Article 41.1 of TRIPS?

(d) Is China's defence of the claim under Article 41.1 of TRIPS contingent on its defence to the claim under Article 5(1) of Berne, as incorporated by Article 9.1 of TRIPS? CHN

50. In its response to Question 94 and its sub-parts, China makes a number of arguments regarding the application of Article 41.1 of the TRIPS Agreement that fail to withstand scrutiny. (As a preliminary matter, the United States has demonstrated that Article 4.1 of the Copyright Law is inconsistent with China's obligations under Article 41.1 of the TRIPS Agreement.[55])

51. *First*, contrary to China's statement in its responses, "enforcement procedures" are simply not available for all works in China due to Article 4.1.[56] China claims that it meets the Article 41.1 standard as it purportedly "grants access to enforcement procedures under Chapter V of the Copyright Law." Yet, as a consequence of the impermissible denial of protection under Article 4.1 of the Copyright Law, China withholds from such works all of the remedies required by TRIPS Article 41.1 and Article 61. Indeed, if a work is not protected, the civil and criminal enforcement procedures specified in China's Copyright Law will not be made available to a right holder.

52. China's attempt to rely on the *Section 211* Appellate Body Report in support of its arguments fails. The Appellate Body in the *Section 211* dispute did not find that merely allowing a right holder to simply file a claim is sufficient "access" to meet the obligations in Article 42; rather, the Appellate Body observed that, "[p]ursuant to the first sentence of Article 42, civil judicial procedures must be made available to 'right holders' of intellectual property rights covered by the TRIPS Agreement *so as to enable them to protect those rights against infringement*."[57] By virtue of Article 4.1, a right holder in a work covered by Article 4.1 cannot

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[55] First Submission of the United States, paras. 232-243; Second Submission of the United States, paras. 215-220.

[56] China's Responses, para. 104 (Emphasis added).

[57] Appellate Body Report, *United States – Section 211 Omnibus Appropriations Act of 1998,* WT/DS176/AB/R, adopted 1 February 2002, para. 217.

protect the rights provided by its copyright against infringement, and therefore, there is no "access" to civil judicial and criminal procedures (assuming thresholds are met) if a work is "unprotected" by virtue of Article 4.

53. Additionally, China fails to take into account that, because of Article 4.1, there is no "effective" action therefore available to a right holder that wishes to take action against acts of infringement in China. Contrary to China's argument,[58] "government censorship" is simply not "effective" action under Article 41.1 of the TRIPS Agreement. This reading of Article 41.1 is simply at odds with the text: the provision refers to right holders' rights (i.e., "enforcement procedures specified in this Part") and not government censorship. Moreover, while China appears to claim that its government censorship serves as an effective form of alternative enforcement, that argument is contradicted by published accounts of the widespread copyright problem in China.[59]

54. *Second*, China's responses to Question 94 also tread the familiar path of China's mis-placed arguments regarding the scope of Article 17 of the Berne Convention. China appears to defend Article 4.1's complete denial of copyright to an entire category of works by claiming that Article 17 of the Berne Convention permits Members' national law to provide that "the act of infringement is not cognizable."[60] China also astonishingly now claims that Article 17 *defines* the obligations under the Berne Convention and the "existence of prevailing public censorship must be taken to *define* the act of infringement."[61]

55. However, Article 17 says no such things. Further, these arguments rely on the faulty premise that copyright protection should be equated with "private censorship."[62] Article 17 of the Berne Convention only preserves for Members the ability "to permit, to control, or to prohibit . . . the circulation, presentation, or exhibition of any work or production . . . ." Indeed, in order for China to prevail on its erroneous arguments with respect to the meaning of Article 17, this Panel would have to conclude that this language nullifies all the obligations of the Berne Convention. But as the United States has previously noted in its submissions[63] and its comments on the materials provided by the International Bureau of the WIPO to the Panel, China's

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[58] China's Responses, para. 126.

[59] *See* First Submission of the United States, paras. 200-202.

[60] China's Responses, para. 120.

[61] China's Responses, paras. 125, 127 (Emphasis added).

[62] The United States has shown that this argument is simply without merit. *See* Oral Statement of the United States at the Second Panel Meeting, paras. 73-74.

[63] *See, e.g.*, Second Submission of the United States, paras. 220-222; Oral Statement of the United States at the Second Panel Meeting, paras. 71-74.

arguments regarding the scope of Article 17 of the Berne Convention contradict its text. Contrary to China's arguments, the power of censorship under Article 17 is limited to the power to control or prohibit a work's "circulation, presentation or exhibition" and does not extend to the denial of copyright protection to authors in their respective works.

56. *Third,* China's argument that a right holder whose work has been denied under Article 4.1 has no claim to damages[64] when a work is circulated without the right holder's permission does not accord with its statement in paragraph 122 of its responses that a right holder of an "illegal, unedited version of the work" may recover damages if the right holder manages to "identify a legal, edited version in existence." It is unclear why China believes that a right holder who only has some content in his or her work declared "illegal" under Article 4.1 is permitted to seek damages, whereas a right holder whose entire work is declared "illegal" under Article 4.1 has no right to seek damages.

Q95. Please refer to the NCAC Circular No. 55 listing pirated DVDs (CHN-141). Of the 788 works listed, how many had *not* obtained content review approval? If there were only relatively few, why? CHN

57. In its response to Question 95, China provides further support for the view of the United States that the scope of the Article 4.1 exclusion and its impact on the right holder is hardly limited.[65] China states that it has found records showing that 313 works listed in the annex to NCAC Circular No. 55 were subject to content review. Of these titles, 33 works were deemed to contain "illegal content."[66] That translates to roughly 10% of the works to which the provisions of Article 4.1 would apply – hardly an "extremely limited" or "extraordinarily rare" set of instances, as China has claimed. Further, even assuming, *arguendo*, that a finding of "illegal content" is indeed rare, the denial of copyright protection in China is a grave outcome for a copyright owner, and one that is clearly inconsistent with China's obligations under the TRIPS Agreement.

[64] China's Responses, para. 123

[65] *See, e.g.*, Oral Statement of the United States at the Second Panel Meeting, paras. 68-70.

[66] China's Responses, para. 137.