

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

(WT/DS362)

**RESPONSES BY THE UNITED STATES OF AMERICA
TO THE SECOND SET OF QUESTIONS BY THE PANEL TO THE PARTIES**

July 3, 2008

A. CRIMINAL CLAIMS

Q54. Does the US submit that China must abolish numerical criminal thresholds in order to ensure conformity with Article 61 of the TRIPS Agreement? US

1. The United States’ position throughout this proceeding has been that China’s laws must provide for criminal penalties and procedures for all commercial-scale counterfeiting and piracy. China’s thresholds are set at such a level, and structured in such a way, that they do not permit prosecution or conviction of infringing activity involving values or volumes that are below the thresholds but are still “on a commercial scale.”

2. However, we do not contend that numerical thresholds would always be *per se* inconsistent with Article 61. The obligation in Article 61 requires a legal regime that criminalizes all wilful counterfeiting and piracy on a commercial scale, but it does not mandate specific forms of legislation.¹ Nevertheless, because China’s thresholds provide a safe harbor from prosecution or conviction of trademark counterfeiting or copyright piracy that clearly takes place “on a commercial scale” – for example, the manufacture or sale or other distribution of 499 infringing copies or the making or selling of a little less than \$6,900 worth of counterfeit personal care products or small electronics² – China is not meeting its obligations under Article 61 of the TRIPS Agreement.

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

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

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

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’

¹ See Second Submission of the United States, paras. 42-44.

² See First Submission of the United States, paras. 121-122.

national laws that used a “commercial purpose” test, and those that did not, at the time of the TRIPS negotiations. US, CHN

3. The United States has not been able to shed useful light on this question. One stumbling block has been the difficulty in discerning what the status of countries’ laws was at the time of the TRIPS negotiations. (The response to Question 67 discusses United States law.) The quoted comment apparently was made by a representative of an unidentified non-governmental organization, but unfortunately, the document found in Exhibit CHN-72 does not provide any supporting material for the representative’s statement nor does it provide further background information.

4. The United States would emphasize, however, that the term “commercial scale” was chosen by the TRIPS negotiators, and not “for commercial purposes.” (For a discussion of “commercial scale” related to “commercial purpose,” please see our answer to Question 62 below.) We have provided a full explication of how the term “commercial scale” should be interpreted, using the customary rules of interpretation reflected in the *Vienna Convention on the Law of Treaties*, to assist the Panel in developing an analytical framework for interpreting and applying the term “commercial scale” in Article 61 of the TRIPS Agreement to assess the consistency of China’s current measures with Article 61.³

Q59. The US first written submission, para. 110, states as follows:

“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.”

- (a) Does the US consider that it is sufficient for the purposes of Article 61 that wilful trademark counterfeiting or copyright piracy is conducted *either* for financial return *or* to a sufficient extent? Or is it necessary that counterfeiting or piracy be conducted *both* for financial gain *and* to a sufficient extent for Article 61 to apply?**
- (b) Which of the factors set out in the US response to Question No. 16, and in the US closing oral statement at the second substantive meeting, para. 10, apply to the first aspect (“those who engage in commercial activities in order to make a ‘financial return’ in the marketplace”) and which to the second aspect (“a sufficient extent or magnitude”)? US**

³ See, e.g., First Submission of the United States, paras. 108-110; Second Submission of the United States, paras. 12-15; Closing Statement of the United States at the Second Panel Meeting, paras. 6-12.

5. Question 59(a): The United States recalls its view that the term counterfeiting or piracy “on a commercial scale” relates to counterfeiting or piracy that reach a certain extent or magnitude (“*scale*”) with a link to the marketplace (“*commercial*”). Whether a particular counterfeiting or piracy activity is “on a commercial scale” will depend on the facts and circumstances surrounding that activity (please refer also to the answer to Question 59(b) below). The quotation in the Panel’s question from paragraph 110 of the U.S. First Submission was simply intended to provide examples of how certain factors could be applied to find commercial scale in certain circumstances. The United States does not view these examples as wholly distinct “aspects” of “commercial scale.”

6. In addition, the United States would like to recall that the Panel does not need to define the outer contours of “commercial scale” in order to complete its task in this dispute. Unlike the hypotheticals presented in the question, the Chinese measures at issue all require proof of an intention to make a financial gain or profit.⁴ In this dispute, the United States is not challenging the Chinese requirement that a “profit-making purpose” be shown for criminal procedures and penalties to be available.⁵ Instead, the issues in this dispute involve a Chinese legal regime in which criminal procedures and penalties are not available unless there is *both* an intention to obtain a financial gain *and* a level of activity in excess of what is “commercial.” Under China’s IPR regime, counterfeiters and pirates with the intention to make financial gains or profits are free to conduct their infringing activities to a specific extent (i.e., beneath China’s thresholds) and not be subject to criminal procedures and penalties, and it is these thresholds that are inconsistent with Article 61 of the TRIPS Agreement.

7. Question 59(b): As noted in the response to Question 59(a) above, we do not view the two “aspects” noted by the Panel’s questions as mutually exclusive alternatives. Depending on the circumstances, any or all of the factors set out in the U.S. Response to Question No. 16 and paragraph 10 of the U.S. Closing Statement at the Second Substantive Meeting of the Panel may be useful for assessing whether an activity is or is not taking place “on a commercial scale.” Factors relevant to an assessment of “commercial scale” would include, but are not limited to, the market for the infringed goods, the object of the infringement, the value of the infringed goods, the means of producing the infringed goods, and the impact of the infringement on the right holder.⁶

⁴ This is clear from the text of Articles 217 and 218 of China’s Criminal Law, and from the particular thresholds for trademark crimes under Article 213 and 214 (i.e., thresholds requiring a minimum threshold of illegal gains, illegal business volume, or amount of sales), with the possible exception of the 20,000 copy threshold for Article 215 (though even in that situation 20,000 copies would ordinarily be circumstantial evidence of a profit motive).

⁵ See First Submission of the United States, para. 133 fn. 96.

⁶ We also note that this list of factors is not meant to be an exhaustive list, since it is difficult to identify in advance all of the circumstances under which infringers may infringe goods, particularly given the creativity of infringers and advances in technology.

Q60. The US first written submission, para. 110, refers 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”. Does the US consider that every act of infringement for a financial return is on a commercial scale? What acts of infringement for a financial return would *not* be on a commercial scale, if any? US

8. Whether any particular act of infringement for financial return is “on a commercial scale,” would depend on the circumstances surrounding the infringement, including consideration of a number of relevant factors that the United States and Third Parties have referred to in their submissions.⁷ As Mexico has noted, it is “not possible to draw a bright line between all acts that are on a commercial scale [and] those that are not.”⁸

9. The United States can appreciate that some activity would be so trivial or of a *de minimis* character so as *not* to be “on a commercial scale” in some circumstances.⁹ For example, we would expect that occasional infringing acts of a purely personal nature carried out by consumers normally would not constitute “commercial scale” activities.¹⁰ As another example, the sale of trivial volumes of counterfeit or pirated goods for trivial amounts (i.e., the sale of one copy for 1 RMB) might not be an activity “on a commercial scale” unless there are circumstances indicating to the contrary.

10. These marginal scenarios differ significantly from China’s measures at issue in the present dispute. It may or may not be necessary for future WTO panels to probe the outer limits of what activity could be considered “commercial scale.” However, the United States has shown in this dispute that China’s measures cut deep into the core of commercial-scale activity. China’s current thresholds do not permit criminal prosecution or conviction of much “commercial scale” counterfeiting and piracy – including much retail store sales activity – in China’s marketplace.

⁷ See, e.g., Responses by the United States to the Questions by the Panel, para. 29; Closing Statement of the United States at the Second Meeting of the Panel, paras. 10-11; Third Party Oral Statement of Canada, para. 7; Third Party Submission of Japan, para. 18.

⁸ Mexico’s Responses to the Panel’s Questions from the First Substantive Meeting, para. 6.

⁹ Responses by the United States to the Questions by the Panel, para. 37.

¹⁰ We would note that the provisions for border measures in the TRIPS Agreement deal with a similar situation. Under Article 60 (entitled “De Minimis Imports”), Members may exclude from the application of border measures “small quantities of goods of a non-commercial nature contained in travellers’ personal luggage or sent in small consignments.” The words used in this sentence emphasize the personal character and concomitant *de minimis* character which may be considered non-“commercial” and thus not subject to border enforcement disciplines, at the discretion of the Member.

Q61. The US closing oral statement at the first substantive meeting, para. 9, states as follows: “Those who are engaging in commercial activities (and thus do have a profit motive) are acting on a ‘scale’ that is ‘commercial’. But, that is not the end of the analysis. The ‘scale’ of what is ‘commercial’ in each market will necessarily vary by many factors, including the object of the infringement and the market for the infringed items.” Are the “many factors” relevant to “[t]hose who are engaging in commercial activities (and thus do have a profit motive)”? Or are they relevant 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”? US

11. The United States would refer the Panel to the United States’ answer to Question 59 above.

Q62. The US rebuttal submission, para. 15, states as follows:

“Thus, it is clear that the ordinary meaning of ‘commercial scale’ extends to those who engage in commercial activities, including manufacturing, distribution, and retail sales.”

(a) What is the difference between “commercial scale” and “commercial purpose” with respect to “those who engage in commercial activities, including manufacturing, distribution, and retail sales”?

(b) Is every act of infringement by a person who engages in commercial activities, including manufacturing, distribution, and retail sales, “on a commercial scale”? US

12. (*Question 62(a)*): The United States would note that “commercial scale” and “commercial purpose” are different terms. As we have stated, the standard in Article 61 is not “commercial purpose.” Unlike “commercial purpose,” the term “commercial scale” is based on an objective component – that of “scale” – which is not dependent on the subjective intent of the infringer. However, those who are operating on a “commercial scale” – i.e., are genuinely engaged in, for example, manufacturing, distribution, or retail sales – will likely possess a commercial purpose or intent to seek financial gain. (We would also refer the Panel to the United States’ answer to Question 60 above.)

13. (*Question 62(b)*): Not necessarily. We would expect that when the commercial activity is itself infringing activity and the IPR infringer is genuinely or seriously engaged in such activities, he or she would, by definition, be acting “on a commercial scale.” Indeed, such an IPR infringer is part of the commercial fabric of that marketplace and thus by definition would be operating on a commercial scale. However, it is possible to imagine acts of infringement that could be characterized as fitting within these categories where the “commercial scale” analysis may require consideration of other factors. For example, the manufacture of prototypes to test the

infringer’s production equipment could be a case where knowledge of other factors would be relevant. Similarly, if a person engaged in legitimate commercial activities is also engaged in infringing activities, the existence of the legitimate commercial platform to support the infringing activities would be a pertinent consideration in assessing whether the infringing activities are “on a commercial scale.”

Q63. The US rebuttal submission, para. 17, and US opening oral statement at the second substantive meeting, para. 8, state as follows: “... an infringer seriously engaged in pursuing financial gain in the marketplace is *necessarily* acting on a ‘scale’ that is ‘commercial,’ and therefore falls within the ordinary meaning of the term.”

The US closing statement at the second substantive meeting, para. 15, states as follows:

“Likewise, ‘commercial scale’ certainly extends to those who are genuinely engaged in commercial activities in order to make a financial return.”

What is the meaning of “seriously” and “genuinely” in this context? How does one assess when an infringer is “seriously” or “genuinely” engaged in a commercial activity? US

14. The United States has employed the words “seriously” or “genuinely” to underscore that the IPR infringer must be actually engaged in pursuing financial gain through non-trivial commercial activities in the marketplace, as opposed to, for example, a one-off entry into the marketplace of a limited nature.

15. Whether an infringer is “seriously” or “genuinely” engaged in commercial activities would depend on the facts and circumstances of the activity. For example, certain factors noted by the United States and other Third Parties could potentially be relevant, including the market for the infringed goods, whether there is marketing or solicitation of business, a previous history of infringement by the infringer, whether the infringer is seeking financial gain, and the value of the infringed goods.

Q64. The US opening oral statement at the second substantive meeting, para. 9, states that it is “possible” that a single sale of an infringing product could qualify as “commercial scale”. The US closing statement at the second substantive meeting, para. 14, states that the sale of 499 copies “is” on a commercial scale. Why is it certain that only the latter is on a commercial scale when both are sales for financial return? US

16. While it is true that both the sale of one infringing good and the sale of 499 copies could be for the purposes of financial return, one would expect that the facts and circumstances

surrounding the sale of 499 copies in China will normally if not always be of a dimension that is “on a commercial scale.” That is not to say that the sale of a single copy of an expensive piece of software would not be “on a commercial scale.” However, it is difficult to conceive of the production or sale of 499 copies of an infringing DVD or CD (or for that matter, the making or selling of a little less than \$6,900 worth of counterfeit personal care products or small electronics¹¹) that would take place in circumstances that are “not on a commercial scale.” Four hundred ninety-nine copies is not a trivial number – nor is it plausible to suggest that commerce in such items only occurs at a level greater than 499 copies (and the sale of 499 copies certainly would not be of a purely personal nature). Indeed, as the United States has shown, businesses can and do conduct their commercial operations in China’s marketplace beneath China’s thresholds.¹²

Q65. With respect to actions, regardless of motive or purpose, that are of a “sufficient” extent or magnitude to qualify as “commercial scale” in the relevant market, the US rebuttal submission, para. 17, states as follows:

“The ‘scale’ of what is ‘commercial’ in each market will necessarily vary by many factors, such as the object of the infringement and the market for the infringed or the infringing items.”

**Irrespective of the motive or purpose of different activities, how does the determination of what “scale” is “commercial” under this *second* aspect of the US interpretation differ from the scale of commercial activities in order to make a financial return in the marketplace under the *first* aspect of the US interpretation?
US**

17. While we would refer the Panel to our answer to Question 59 above, we observe that the second “aspect” noted by the Panel is a recognition that in some circumstances the actions of an IPR infringer are of sufficient extent or magnitude to qualify as being on a “scale” that is “commercial” in the relevant marketplace.¹³ For example, in the case of copyright piracy, we would note that the Internet and digital technology can enable an infringer to distribute electronic copies works or sound recordings to be made, transmitted, or downloaded cheaply and efficiently.

¹¹ See First Submission of the United States, paras. 121-122.

¹² See, e.g., First Submission of the United States, paras. 121-122, 139-140, 155-158. Oral Statement of the United States at the First Panel Meeting, paras. 43-44; Responses by the United States to the Questions of the Panel, paras. 41-42.

Q66. In its response to Question no. 19, the US states that “the Panel is not required to define a level for ‘commercial scale’”. Please elaborate in light of the meanings of “scale” as “relative magnitude or extent”, or “degree, proportion” or “standard of measurement, calculation or estimation”. (US FWS §109) US

18. As the United States has noted in its First Submission, the standard by which “scale” is to be evaluated is the word “commercial.” It is not as China would have the Panel believe, a number or value that is “significant.” Moreover, “commercial scale” must be viewed with reference to the marketplace, as the “scale” of what is “commercial” in a specific case will vary.¹⁴

19. Therefore, given that what is “commercial” can vary among, for example, product and market, the Panel does not need to determine what is “on a commercial scale” for all purposes and in all situations. The Panel is also not required to provide a list or definition of actions that are not “on a commercial scale.” The task at hand involves an assessment of China’s measures, as they exist in the context of this dispute.¹⁵ It is sufficient for the Panel to determine that, based on the ordinary meaning of “commercial scale,” China does not provide criminal penalties and procedures for all “commercial scale” activities in China’s marketplace, such as retail sales and manufacturing of infringing products, because China’s thresholds preclude prosecution or conviction of below-the-thresholds infringing activity.

20. In this way, the Panel’s task is similar to that of other panels looking at the particular application of a provision of a covered agreement where that provision calls for a fact-intensive inquiry. In those cases, a panel is called to examine the particular factual situation and does not need to define the precise scope of the term for all possible situations in all Members. For example, the task here is similar to that of a panel in a dispute concerning “like products” in Article III:2 of the GATT 1994. There, similar types of assessment have been conducted in each dispute. The Appellate Body has noted that what is a “like product” may vary in each dispute, because determining whether imported and domestic products are “like” for the purposes of

¹⁴ We observe that it is common under the WTO Agreements to examine a number of factors related to a Member’s “marketplace” in the context of a case-by-case determination of whether a Member’s measures are consistent with the applicable treaty obligation. *See, e.g.,* Appellate Body Report, *Japan – Taxes on Alcoholic Beverages*, WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R, adopted 1 November, 1996, p. 25 (“[i]n this case, the Panel emphasized the need to look not only at such matters as physical characteristics, common end-uses, and tariff classifications, but also at the ‘market-place.’ This seems appropriate. The GATT 1994 is a commercial agreement, and the WTO is concerned, after all with markets. It does not seem inappropriate to look at competition in the relevant markets as one among a number of means”); Appellate Body Report, *Korea – Measures Affecting Imports of Fresh, Chilled and Frozen Beef*, WT/DS161/AB/R, WT/DS169/AB/R, adopted 10 January 2001, para. 137 (involving application of Article III:4 of GATT 1994).

¹⁵ *Cf.* Appellate Body Report, *European Communities – Regime for the Importation, Sale and Distribution of Bananas*, WT/DS27/AB/R, adopted 25 September 1997, para. 211 (“at issue in this appeal is not whether any import licensing requirement, as such, is within the scope of Article III:4, but whether the EC procedures and requirements for the distribution of import licenses for imported bananas among eligible operators within the European Communities are within the scope of this provision.”) (emphasis omitted).

Article III:2 first sentence must be conducted on a case-by-case basis.¹⁶ Moreover, with respect to such disputes, a number of relevant criteria are ordinarily applied to the “facts of any particular case, and in considering other criteria that may also be relevant in certain cases, panels can only apply their best judgment in determining whether in fact products are ‘like’.”¹⁷

Q67. When the US first implemented Article 61 of the TRIPS Agreement, did its implementation reflect the interpretation that it has submitted to the Panel at FWS §110? In particular, from what point in time did US copyright law criminalize certain actions regardless of motive or purpose? Were such actions criminalized in response to the TRIPS Agreement or other developments? US

21. Although the matter at issue in this dispute concerns China’s measures, the United States would be pleased to share with the Panel information concerning its criminal copyright laws.

22. The principal criminal copyright law provision is Section 506 of the Copyright Act (17 U.S.C. §506). Prior to the coming into force of the WTO Agreement, Section 506 had made any person who wilfully infringes a copyright liable for both imprisonment and fines if the infringement was committed “for purposes of commercial advantage or private financial gain.”¹⁸ In 1997, Section 506 (a)(1)(B) was added to deal with the problem of massive infringement, such as via the Internet, that can destroy the market for a work even if the infringing activity is not necessarily pursued for financial gain. In 2005, Section 506 (a)(1)(C) was added to address the problem of pre-release piracy.

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

23. The United States has proposed an analytical framework for the interpretation of “commercial scale” in accordance with the customary rules of interpretation of public international law reflected in the *Vienna Convention*.¹⁹ Pursuant to Article 3.2 of the *Understanding on Rules and Procedures Governing the Settlement of Disputes* (“DSU”), these rules apply to the Panel’s interpretation of Article 61. Under these rules, each of the terms referred to in the Panel’s questions must be interpreted “in good faith in accordance with the

¹⁶ Appellate Body Report, *Japan – Taxes on Alcoholic Beverages*, WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R, adopted 1 November, 1996, p. 20.

¹⁷ Appellate Body Report, *Japan – Taxes on Alcoholic Beverages*, WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R, adopted 1 November, 1996, p. 20.

¹⁸ See Section 506 (a)(1)(A) of the Copyright Act.

¹⁹ See First Written Submission of the United States, paras. 108-110.

ordinary meaning to be given to the terms of the agreement in their context and in the light of its object and purpose.”

24. In providing the panel with a proposed interpretation of “commercial scale,” the United States has employed a well-established method for interpreting a two-word term – a method consistent with that followed by past panels and the Appellate Body. We would also note that there is nothing in the TRIPS Agreement that establishes a special meaning – in the sense of the *Vienna Convention* – for the term “commercial scale.”

25. Moreover, we do not submit that there are other ordinary uses of the phrase “commercial scale” that would be 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” when arriving at their consensus concept.

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

26. 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.

27. *First*, if an individual patent applicant places “commercial scale” in a patent application, it is a function of that individual’s own lexicography – and he or she may have his or her own purposes for using “commercial scale” in that specific context. Therefore, it is unclear how that would shed light on the ordinary meaning of “commercial scale” in the case of TRIPS Article 61.

28. *Second*, it is unclear what status patent applications – documents unrelated to the first sentence of Article 61 of the TRIPS Agreement – would have under the customary rules of interpretation reflected in the *Vienna Convention*. (Indeed, we would note that the first sentence of Article 61 only requires criminal procedures and penalties to be available for “commercial scale” counterfeiting and piracy, not patent infringement.)

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

29. 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.” To the extent that “non-working” provisions did contain references to the phrase “commercial scale,” it is unclear how relevant this would be, as that context involves different exclusive rights (patent vs. trademark and copyright); implicates different aspects of those rights (their maintenance vs. their means of enforcement); and involves measurement of very different activities (a patent owner’s legitimate exploitation of an exclusive right vs. an infringer’s wilful counterfeiting or piracy).

30. We would also observe that the first sentence of Article 61 only obligates criminal procedures and penalties to be available for “commercial scale” counterfeiting and piracy and not patent infringement. This, too, raises questions about whether patent-related discourse could be a source for Article 61. Moreover, as the EC, whose proposal is apparently one of the earliest proposals to use the term “on a commercial scale” in the TRIPS negotiations, has noted, despite its efforts, it has “not been able to find *any trace*” indicating that the phrase “commercial scale” was sourced from another instrument.²⁰ Accordingly, in providing the panel with a proposed interpretation of “commercial scale,” the United States has employed a well-established method for interpreting a two-word term – a method consistent with that followed by past panels and the Appellate Body.

Q71. Article 44.2 of TRIPS allows Members to limit the civil remedies available against use by governments or third parties authorized by a government. Does “trademark counterfeiting and copyright piracy on a commercial scale” under Article 61 of TRIPS include acts carried out on a large scale without a commercial purpose by governments or third parties authorized by a government? US

31. Article 44.2 of the TRIPS Agreement provides that:

Notwithstanding the other provisions of this Part and provided that the provisions of Part II specifically addressing use by governments, or by third parties authorized by a government, without the authorization of the right holder are complied with, Members may limit the remedies available against such use to payment of remuneration in accordance with subparagraph (h) of Article 31. In other cases, the remedies under this Part shall apply or, where these remedies are inconsistent with a Member’s law, declaratory judgments and adequate compensation shall be available.

32. The United States would note that nothing in Article 44.2 addresses the “scale” of the activity referred to in the Panel’s question. Furthermore, as it is not at issue in this dispute, the United States does not express a view as to whether the “use” that is the subject of Article 44.2 would, in particular cases, necessarily constitute “wilful trademark counterfeiting or copyright piracy” within the meaning of Article 61.

²⁰ Replies by the European Communities to Questions from the Panel to Third Parties, para. 30 (Emphasis added).

33. Moreover, Article 44.2 does not appear to specify that only civil remedies available may be limited. The provision is applicable to “this Part” or Part III (Enforcement of Intellectual Property Rights) – and not only applicable to section 2 of Part III (“Civil and Administrative Procedures and Remedies”). Therefore, it does not appear that the phrase “remedies available” for such uses would include only civil or administrative remedies. Consequently, while it is conceivable that the “acts” referred to in the Panel’s question could potentially take place “on a commercial scale,” Article 44.2 appears to provide the ability for Members to limit remedies provided for in Part III of the TRIPS Agreement – such as criminal procedures and penalties – in the cases of use by governments or by third parties authorized by a government.

B. CUSTOMS CLAIMS

Q72. The US rebuttal submission, para. 148, argues that donation to a public welfare organization can damage the right holder’s reputation. Please explain under what specific conditions the US considers that charitable donations *could* accord with the principles of Article 46 of TRIPS. US

34. Donation of infringing goods to a public welfare organization can fully accord with the principles of Article 46 of the TRIPS Agreement. One such approach that would observe the principles of Article 46 would involve the right holder’s consent to such donations. Another approach could involve working collaboratively with the right holder to modify the goods to remove the infringing marks or features.

35. However, as we have demonstrated, under China’s regime, when goods are suitable for donation, China’s measures do not give China Customs the required authority to act in accordance with the principles of Article 46.

Q73. Does the US ask the Panel to rule on the Law on Donations for Public Welfare? Does the US submit that the Law is within the Panel’s terms of reference? US

36. Article 7.1 of the DSU provides as follows:

1. Panels shall have the following terms of reference unless the parties to the dispute agree otherwise within 20 days from the establishment of the panel:

“To *examine*, in the light of the relevant provisions in (name of the covered agreement(s) cited by the parties to the dispute), *the matter referred to the DSB* by (name of party) in document ... and to make such findings as will assist the DSB in making the recommendations or in giving the rulings provided for in that/those agreement(s).”²¹

²¹ Emphasis added. This Panel was established with these standard terms of reference. See Minutes of Meeting Held on 25 September 2007, WT/DSB/M/239, para. 36.

37. Therefore, under Article 7.1 of the DSU, the task of the Panel is to examine “the matter referred to the DSB.” The Appellate Body has observed that the “matter referred to the DSB” “consists of two elements: the specific measures at issue and the legal basis of the complaint (or the claims).”²² Accordingly, if the Panel is asking whether the Law on Public Donations is part of the “matter” in the dispute, the answer is no; the United States did not include the Law on Public Donations as a measure as to which it is raising claims.

38. To the extent, however, that the Panel is asking whether it is authorized to make findings on whether the Law on Public Donations provides a defense to the U.S. claims in this dispute (in the sense that it operates to prevent the measures at issue from being inconsistent with China’s WTO obligations), the answer is yes. Under the Panel’s terms of reference, the Panel’s task is to “examine” the matter (measures and claims) that the United States has raised. As part of its examination of that matter, the Panel must also examine the facts that China has submitted in defense. How a Member’s domestic law operates is a factual question. Given that China has raised the Law on Donations for Public Welfare as part of its defensive arguments, the Panel may examine whether the Law does or does not operate such that the measures that fall within the Panel’s terms of reference are inconsistent with China’s WTO obligations.²³ (The United States recalls that it has elsewhere explained why China’s arguments regarding the Law on Public Donations and its impact on the Panel’s assessment under Article 46 are without merit.²⁴)

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

Q75. Article 27 of the Customs IPR Regulations (MAT-6) provides that Customs “can” (two characters) have such goods auctioned.

- (a) Where auction is possible, does that preclude Customs’ authority to order destruction under Article 27 of the Regulations themselves (as distinct from the Implementing Measures)?**
- (b) Does the use of the word “can” rather than “shall” in Article 27 of the State Council Regulations affect the nature of Customs’ authority to order auction and destruction under Customs’ own Implementing Measures? US**

²² Appellate Body Report, *Guatemala – Anti-Dumping Investigation Regarding Portland Cement from Mexico*, WT/DS60/AB/R, adopted 25 November 1998, para. 72 (emphasis omitted).

²³ See, e.g., First Written Submission by the People’s Republic of China, para. 161.

²⁴ 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.

39. The Customs IPR Implementing Measures were formulated by China Customs to implement the Customs IPR Regulations, and both measures bind customs authorities across China. As a matter of Chinese law, and as China has confirmed,²⁵ customs officials follow the IPR Implementing Measures as the means to “effectively implement” the Customs IPR Regulations, and China Customs “shall” order auction over destruction when certain circumstances are present.²⁶ We are not in a position to opine on how, under Chinese law, China’s Customs IPR Regulations hypothetically might be interpreted or operate on their own.

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

Q77. Article 30(2) of the Customs IPR Implementing Measures provides that:

- (a) where the infringing features “can” be eradicated, goods shall be auctioned off. What do you understand that “can” means in this context?**
- (b) goods shall be auctioned off “according to law”. What does this refer to? US**

40. (*Question 77(a)*): Article 30(2) of the Customs IPR Implementing Measures provides that “[w]here the goods concerned cannot be disposed of in accordance with Item (1) but the infringing features can be eradicated, they shall be auctioned off according to law after eradicating the infringing features.” In the context of this provision, and given the Chinese characters used, the word “can” appears to serve as part of the factual precondition for auction; i.e., where the infringing features are *capable of being eradicated*, the goods shall be auctioned off.

41. (*Question 77(b)*): Under Chinese law, we understand that the phrase “according to law” means that the public auction by Customs should be “legal” – that is, “comply” with relevant rules governing these activities.

Q78. Please refer to the flowchart of the Customs hierarchy in US-68.

- (a) Is that flowchart accurate in its representation of donation and sale to the right holder as consecutive, rather than parallel, options?**

²⁵ Responses by the People’s Republic of China to the Questions of the Panel, para. 93

²⁶ Responses by the People’s Republic of China to the Questions of the Panel, para. 131.

- (b) **Is that flowchart complete in that it does not take account of any other laws that may be applicable, such as the Law on Product Quality?**
- (c) **Is the only criterion that would permit Customs to make a determination between auction and destruction the question whether the characteristics of IPR infringement can be completely eliminated? US**

42. *(Question 78(a))*: As indicated by the heading of the flowchart in Exhibit US-68, it is intended to graphically illustrate the text of Article 30 of the Customs IPR Implementing Measures and Customs Announcement No. 16. The placement of the donation option and sale to right holder option in the chart only reflected the fact that in the text of the Customs IPR Implementing Measures, the donation option appears before the sale option in the relevant provision. However, as a legal matter, they are parallel options, in that they are both part of the first “item” in Article 30 of the Customs IPR Implementing Measures. Accordingly, it would have avoided possible confusion to have placed the two options in parallel positions on the chart.

43. *(Question 78(b))*: As noted, the flowchart only illustrates the text of Article 30 of the Customs IPR Implementing Measures and Customs Announcement No. 16. The United States recognizes that China has raised the claim that other laws may curb the choices available to China Customs at a given point in the hierarchy illustrated by the flowchart. Our position is that, even assuming that such laws as the Law on Product Quality *may* be applicable in certain situations, the Customs hierarchy still remains mandatory, constraining Customs officials from having the authority required under Article 46, and thus the measures at issue do not comport with China’s obligations under Article 59 of the TRIPS Agreement.

44. *(Question 78(c))*: Based upon Article 30 (2) and (3) of the Customs IPR Implementing Measures, the only circumstance where Customs can make a determination to destroy goods is where none of the options laid out in the first two “items” is available. In other words, the destruction step will not be reached if any of the options higher in priority are available. Under this measure, the determination that auction is not available would occur when the characteristics of the infringement can not be completely eliminated. Other laws of general application in China do not change the mandatory decision hierarchy China Customs must use, given the requirements in the Customs IPR Implementing Measures.

Q79. Please refer to the Customs statistics in Exhibit CHN-166. With respect to infringing goods that were *not* disposed of under Item 1 of the Implementing Measures (i.e. neither by donation nor by sale to the right holder), it appears that over 96% were destroyed rather than auctioned.

- (a) **Does the US assert that over 96% of these goods were destroyed, rather than auctioned, solely because the infringing features could not be eradicated?**

- (b) **Does the US assert that less than 4% of these goods were auctioned because Customs had no authority to do otherwise, or because Customs chose auction among available alternatives in those cases?**
- (c) **Why, in the view of the US, have no infringing imported goods been auctioned? US**

45. *(Question 79(a) and (b))*: The United States does not know whether goods may have been destroyed for reasons other than those mandated in the Customs measures. However, as we have previously noted, the U.S. concerns relate to the legal constraints created by the Chinese measures that preclude China Customs officials in certain circumstances from having the authority to act in accordance with Articles 59 and 46. For example, the Chinese measures dictate that when confiscated goods qualify for auction, Chinese authorities have no power to take any other step.²⁷ The *legal structure* of the measures, reflected in their mandatory language, is at issue in the matter at hand.

46. *(Question 79(c))*: The United States’ concerns are focused on the problematic legal constraints created by the measures at issue. China’s Customs disposal statistics regarding imports cannot demonstrate that Chinese officials had the requisite Article 46 authority in dealing with such goods, and our claim centers on the nature and scope of the authority that is provided to China Customs.

47. Even though the information is not relevant to the legal claims made in this dispute, the United States is pleased that China collected this information for purposes of this panel proceeding, because it is of interest more generally. For example, it shows that very few imports were subject to seizure, an interesting fact in itself.

Q80. How likely is it that, in a future case, infringing goods will satisfy the conditions for auction and thereby preclude Customs from having authority to order their destruction? Please describe the circumstances in which that will occur. US

48. The United States would respectfully submit that we brought this claim to remedy what we believe are WTO inconsistencies manifested on the face of China’s measures. Our claim is that, by virtue of the lack of TRIPS-required authority embedded in the legal structure of the measures at issue, China is acting inconsistently with its obligations under the TRIPS Agreement. The United States is not in a position to predict how many infringing goods could be subject to auction in the future, if China Customs continued to lack the requisite Article 59 authority to destroy them. Certainly, goods are being auctioned today in China under China’s Customs measures, and China itself has indicated that it prefers to auction confiscated goods rather than

²⁷ Responses of the People’s Republic of China to the Questions of the Panel, para. 131.

destroy them.²⁸ Moreover, as technology continues to develop, the prospect of increased volumes of reasonable quality infringing goods being produced does not diminish. That said, none of these facts is relevant to the legal claim we are making about the problems created on the face of China’s Customs measures.

Q81. The US describes the circumstances under which China's legal regime permits destruction as “highly limited” (US SOS §59). How do you reconcile this with the statistics in CHN-166 showing that each year a majority of infringing goods (by value) is destroyed? US

49. The United States would like to clarify that the phrase “highly limited circumstances” was used in reference to the text of China’s measures. The United States was not discussing the statistics on the disposition of the goods. As we have noted, our claim concerns whether China provides the authority for its Customs to exercise full Article 46 authority in dealing with confiscated goods.

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

Q83. The US submits that China's auction procedures do not allow goods to be disposed of in such a manner as to avoid any harm to the right holder (US SOS §56). How is this relevant to the US requests for findings (US SOS §60) if auction is not disposal outside the channels of commerce? US

50. As noted in paragraph 60 of our Oral Statement, the United States respectfully has requested the Panel to find that (1) the compulsory sequence of steps set out in the Chinese measures at issue means 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 (2) the measures at issue are therefore inconsistent with China’s obligations under Article 59 of the TRIPS Agreement.

51. The United States takes issue with China’s public auction procedure under the measures at issue because it deprives Customs of the authority to select destruction or disposal outside the channels of commerce in such a manner as to avoid any harm to the right holder when the auction option becomes operative in the Customs hierarchy. China’s auction option does not

²⁸ See First Written Submission of the People’s Republic of China, para. 174.

meet Article 46 principles, so it becomes critical for Customs to have full authority to take another action that would meet these principles.

52. A mandatory auction does not meet Article 46 principles for several reasons. To begin with, an auction obviously precludes destruction. This means that the auction would comply with the principles set out in the first sentence of Article 46 of the TRIPS Agreement only if it qualified as a method for disposing of goods outside of the channels of commerce in such a manner that avoids any harm to the right holder. However, the mandatory auction both involves the return of goods *into* commerce and it harms the right holder, since it hurts the right holder’s brand reputation and may damage the market for such goods. Either one of these facts alone would make China’s auction procedure deficient when measured against Article 46 principles; the mandatory auction fails on both counts. (In addition, as discussed further below, the Chinese auction system is inconsistent with the principles in the last sentence of Article 46.)

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

Q85. With respect to Article 46, 4th sentence of TRIPS, does the use of the word “sufficient” indicate that, under some circumstances, the authorities *may* release into the channels of commerce counterfeit trademark goods that they have found to be infringing *other* than in exceptional cases? If not, why not? US

53. The fourth sentence of Article 46 provides that “[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.” The juxtaposition of the phrases “simple removal of the trademark unlawfully affixed shall not be sufficient” and “other than in exceptional cases” means that removal of the mark is only “sufficient” in “exceptional cases” to release the goods into the channels of commerce.

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**

54. (Question 86(a)): The fourth sentence of Article 46 provides a principle that China must observe; namely, that counterfeit trademark goods can be introduced into the channels of commerce after removal of the unlawfully affixed trademarks only “in exceptional cases.” Accordingly, as long as a Member provides that only in “exceptional cases” may the removal of an unlawfully-affixed trademark be sufficient to release the goods into the channels of commerce, then that would fulfill the fourth sentence of Article 46. In this regard, the TRIPS Agreement does not specify subsets of cases other than the “exceptional cases” limitation. As we have noted, nothing in China’s customs measures suggests that the auctioning of these goods after removal of the infringing mark is permitted only in “exceptional cases.”

55. (Question 86(b)): The United States would submit that “exceptional cases” refers to the set of circumstances. Indeed, “exceptional” is defined to mean “unusual, out of the ordinary; special.”²⁹ Thus the ordinary meaning of “exceptional” would suggest that there is something about the circumstances that is unusual or special, not that there is some *de minimis* number of cases where it is permissible to release the goods into normal channels of commerce after simply removing the infringing mark. If negotiators had intended it to be the number of cases, they might have been expected to phrase the provision more in terms of “other than in a very limited number of cases” or “other than in a *de minimis*/insignificant number of cases.” Accordingly, we would expect that the norm – as opposed to the exceptional case – is that the simple removal of a trademark is not sufficient to permit release into the channels of commerce. Review of the number of cases cannot demonstrate that the authorities are properly assessing the need to limit the use of the auction procedure.

56. 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.

57. In the matter at hand, China’s Customs IPR Implementing Measures compel public auction if the infringing features of the products can be eliminated. Thus, the face of these measures indicates that the auctioning of these goods after removal of the infringing mark is permitted in the normal case, and not only in “exceptional cases.” This does not meet the standards outlined in the fourth sentence of Article 46.

Q87. The US argues that the TRIPS Agreement requires authorities to have the full power to choose among any legitimate options for dealing with infringing goods from the outset when the goods are found to be infringing, and thereafter “until the goods are finally dealt with” (US SOS §42) or “at all times” (US SOS §59). If a party has opted for disposal with respect to particular infringing goods, what is the relevance of continuing authority to order destruction? US

58. Article 59 of the TRIPS Agreement provides that (emphasis added):

²⁹ *The New Shorter Oxford English Dictionary* (4th ed. 1993), p. 872 (Exhibit US-77).

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.*

59. Therefore, in light of the text of Article 59, a Member would need to provide the authority to its competent authorities to order either the (1) destruction or (2) disposal of infringing goods in accordance with the principles set out in Article 46. Accordingly, if a Member decides to provide for authority to take one of these options, as long as the authority exists from the outset, when goods are found to be infringing, and thereafter, until the goods are dealt with, the other option would not be relevant in that circumstance.

60. As we have explained in our submissions, China’s measures at issue do not comport with the first sentence of Article 59. (We would also reference paragraph 191 of our First Submission and paragraphs 171-172 of our Second Submission in this respect.)

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**

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

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

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

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

- 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**
- 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 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**
- 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**