

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

***(WT/DS362)***

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

**FEBRUARY 8, 2008**

## I. INTRODUCTION

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

2. The United States recognizes that China undertook major revisions to its laws to create a modern IPR system in its effort to meet TRIPS Agreement standards before and after its WTO accession in 2001. At the same time, the United States considers that China’s efforts have fallen short in certain areas. The claims before this Panel concern three such specific areas.

## II. FACTUAL BACKGROUND

3. First, under Chinese law, neither criminal prosecution nor conviction for certain acts of IPR infringement is possible unless specific monetary or volume-based thresholds are met. China has established these thresholds through provisions in the *Criminal Law of the People’s Republic of China* (“Criminal Law”) as further defined by binding interpretations of that law jointly issued by the Supreme People’s Court and the Supreme People’s Procuratorate – the *Interpretation by the Supreme People’s Court and the Supreme People’s Procuratorate of Several Issues Concerning the Specific Application of Law in Handling Criminal Cases Involving Infringement of Intellectual Property Rights* (“December 2004 JI”); and the *Interpretation by the Supreme People’s Court and the Supreme People’s Procuratorate of Several Issues Concerning the Specific Application of Law in Handling Criminal Cases of Infringement of Intellectual Property Rights (II)* (“April 2007 JI”).

4. Part Two, Chapter III, Section 7 (entitled “Crimes of Infringing on Intellectual Property Rights”) of China’s Criminal Law defines the acts of IPR infringement that are subject to criminal penalties in China. In that Section, Articles 213, 214, and 215 criminalize certain acts of trademark counterfeiting and Articles 217 and 218 criminalize certain acts of copyright piracy.

5. Not all acts of trademark counterfeiting and copyright piracy are subject to criminal penalties in China: criminal prosecution or conviction for an act of counterfeiting or piracy is only possible if additional prerequisites are met beyond the act of counterfeiting or piracy itself. The Criminal Law expresses certain of these prerequisites in general terms related to the quantity of monetary gains or seriousness. For example, the act of infringement must either involve “illegal gains” that are “relatively large” or “enormous,” or must involve “circumstances” that are “serious” or “especially serious.” The December 2004 JI and the April 2007 JI articulate the specific standards that must be met in order to trigger criminal prosecution or conviction for each of the offenses.

6. The December 2004 JI quantifies the prerequisites for criminal prosecution or conviction in the Criminal Law in three main ways. *First*, it defines some thresholds in terms of a specific minimum “illegal business volume” realized by the infringer. *Second*, the December 2004 JI

defines some thresholds in terms of minimum amounts of “illegal gains” reaped by the infringer. *Third*, the December 2004 JI defines some thresholds in terms of minimum numbers of “illegal copies.” The April 2007 JI provides a lower threshold for the minimum number of copies than the December 2004 JI.

7. Accordingly, China’s Criminal Law, combined with the December 2004 JI and April 2007 JI, creates specific quantitative or monetary thresholds that must be met before acts of copyright piracy or trademark infringement can be subject to criminal prosecution or conviction under Articles 213, 214, 215, 217, and 218 of the Criminal Law – the provisions in the Criminal Law directed against trademark counterfeiting and copyright piracy.

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

9. The following measures create this compulsory scheme: the *Regulations of the People’s Republic of China for Customs Protection of Intellectual Property Rights* (“Customs IPR Regulations”), the *Implementing Measures of Customs of the People’s Republic of China for the Regulations of the People’s Republic of China on Customs Protection of Intellectual Property Rights* (“Customs IPR Implementing Measures”), and *Announcement No. 16 of the General Administration of Customs* (“Customs Announcement No. 16”).

10. Third, the *Copyright Law of the People’s Republic of China* (the “Copyright Law”) provides the legal basis within China for protecting and enforcing the copyrights of authors in their literary, artistic and scientific works, as well as the legal basis for protecting and enforcing “related rights.” The first sentence of Article 4 provides that “[w]orks the publication or distribution of which is prohibited by law shall not be protected by this Law.”

11. A number of Chinese laws and regulations prohibit the publication or distribution of works under various circumstances. These circumstances may relate to the contents of the work in question. They may also relate to the status of a work within the process through which the contents of a work must be reviewed and approved. For example, the *Regulation on the Administration of Films* generally governs the “production, import, export, distribution and screening of films within the territory of the People’s Republic of China. . . .” The Films Regulation provides that for some period of time after the creation of a film, until that film has been submitted for content review and has completed that review unchanged, the film cannot legally be imported, distributed or projected.

12. Similar content review systems, with similar prohibitions on publication or distribution in the absence of successful conclusion of the content review process, apply with respect to products

other than films. Particularly affected are publications; audio and video products; and electronic publications. The relevant measures include: the *Regulation on the Management of Publications* which applies certain rules to publications such as newspapers, periodicals, books, audio and video products, and electronic publications; the *Regulation on the Management of Audiovisual Products*, which applies *inter alia* to the publishing, production, reproduction, import, wholesale, retail, and rental of recorded audio and video tapes, records, and audio and video CDs; and the *Regulations on the Management of Electronic Publications*, which applies to certain electronic publications.

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

13. The thresholds in China’s Criminal Law and the December 2004 and April 2007 judicial interpretations (collectively China’s “criminal thresholds”) do not meet the minimum standard in the TRIPS Agreement because they prevent criminal procedures and penalties from being applied in many cases of wilful trademark counterfeiting and copyright piracy on a commercial scale. China’s measures are therefore inconsistent with Article 61, first sentence, Article 61, second sentence, and Article 41.1 of the TRIPS Agreement.

#### **A. Article 61, first sentence, of the TRIPS Agreement**

14. The first sentence of Article 61 of the TRIPS Agreement provides that “Members shall provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale.” In this context, “provide for” means to “take appropriate measures in view of a possible event; make adequate preparation.” The phrase “Members shall provide for . . .” thus means that Members have an obligation to include in their law criminal procedures and penalties that apply in cases of wilful commercial scale trademark counterfeiting and copyright piracy.

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

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

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

18. Footnote 14 to Article 51 of the TRIPS Agreement (on “Suspension of Release by Customs Authorities”) offers additional insight as to the meaning of the noun “counterfeiting” in the context of the term “trademark counterfeiting,” by setting out a definition of a term, “counterfeit trademark goods,” that uses “counterfeit” as an adjective “counterfeit trademark goods” shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation.”

19. Putting these definitional elements together, the term “trademark counterfeiting” in Article 61 can be properly understood as including the actions of using in the course of trade a trademark which is identical to, or cannot be distinguished in its essential aspects from, a validly registered trademark. The United States notes that although it has raised other concerns with respect to Articles 213 through 215 of the Criminal Law, the United States does not claim in this dispute that the coverage of these provisions fails to cover the full extent of the term “trademark counterfeiting.”

20. The term “copyright piracy” likewise is not defined in the TRIPS Agreement, although other TRIPS Agreement provisions help clarify its meaning. As a preliminary matter, Section 1 in Part II of the TRIPS Agreement (“Copyright and Related Rights”) provides certain minimum standards for the availability, scope, and use of copyright and related rights in the legal regimes of WTO Members. Specifically, Article 9.1 of the TRIPS Agreement provides, *inter alia*, that all WTO Members shall comply with Articles 1 through 21 of the Paris Act of July 24, 1971 of the *Berne Convention for the Protection of Literary and Artistic Works* (the “Berne Convention”). Further, Articles 14.1 and 14.2 of the TRIPS Agreement require Members to give performers, *inter alia*, the possibility of preventing certain acts, and to give producers of phonograms (sound recordings) the right to authorize or prohibit the direct or indirect reproduction of their sound recordings.

21. The scope of the word “copyright” in the term “copyright piracy” can be understood more fully by reference to footnote 14 to Article 51 of the TRIPS Agreement. Specifically, footnote 14 provides that “[p]irated copyright goods” shall mean any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.”

22. The phrase “copyright piracy” (in Article 61) and “pirated copyright goods” (in footnote 14) are related linguistically. Moreover, a “pirated good” is one kind of physical product

of “piracy.” Therefore, the context provided by the reference to “a related right” in footnote 14 confirms that the term “copyright piracy” in Article 61 must be understood to extend to piracy that infringes either a copyright or a related right (such as the rights of performers and producers of phonograms). The United States notes that although it has raised other concerns with respect to Articles 217 and 218 of the Criminal Law, the United States does not claim in this dispute that the coverage of these provisions fails to cover the full extent of the term “copyright piracy.”

23. The interpretation of the term “wilful” is not at issue in this dispute. The United States does not claim, in this dispute, that any state of mind requirements contained in Articles 213-219 of the Criminal Law and the December 2004 and April 2007 judicial interpretations are inconsistent with China’s WTO obligations.

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

25. Two points bear emphasizing here. *First*, by using the term “commercial *scale*,” the TRIPS Agreement makes clear that WTO Members must criminalize acts that reach a certain extent or magnitude; in other words, that WTO Members must do so even where there is no evidence that the infringer has a commercial motive or purpose. *Second*, in using the term “*commercial scale*,” the TRIPS Agreement draws a link to the commercial marketplace – where those “interested in a financial return” or engaged in “a matter of business” operate, and where business-minded IPR infringers take the fruits of their counterfeiting or piracy. Thus, the concept of “commercial scale” extends both to those who engage in commercial activities in order to make a “financial return” in the marketplace, and who are, by definition, therefore operating on a commercial scale, as well as to those whose actions, regardless of motive or purpose, are of a sufficient extent or magnitude to qualify as “commercial scale” in the relevant market. That said, it is the former activity that forms the focus of the submission.

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

27. Under Article 213 of the Criminal Law and the December 2004 JI, counterfeiting that involves use of an identical trademark on the same kind of commodities must meet one of the following two thresholds before criminal procedures or penalties can be available: an “illegal

business volume” of more than RMB 50,000 (USD \$6,925), or “illegal gains” of more than RMB 30,000 (USD \$4,155).

28. Turning first to the RMB 50,000 (USD \$6,925) “illegal business volume” threshold, the December 2004 JI makes clear as an initial matter that meeting this threshold requires finding evidence of “manufacture, storage, transportation, or sales” of infringing products. If this activity does not reach the threshold, it is completely shielded from the possibility of criminal counterfeiting prosecution or conviction that would be triggered by this test. The extent or magnitude of “manufacture, storage, transportation, or sales,” when carried out by businesses, is “on a commercial scale” because it is these kinds of activities, when undertaken by businesses for a particular market, that provide a basis for assessing what constitutes “commercial scale” for that market. By setting an exemption from criminal prosecution and conviction for counterfeiting activities when there is less than RMB 50,000 in “illegal business volume,” China has exempted businesses from criminal procedures and penalties for counterfeiting where those businesses’ activity of “manufacture, storage, transportation, or sales” realizes less than that amount.

29. Moreover, the calculation methodology required for such “illegal business volume” creates added barriers to prosecution of commercial scale counterfeiting and piracy (whether carried out by businesses or others) because it is not a calculation of the value of the legitimate non-infringing goods with which the counterfeit goods compete; instead, it is a calculation based on the prices through which the counterfeit goods undercut legitimate merchandise. Thus, the value of “illegal business volume” for a quantity of counterfeit merchandise can be far less than the value of an equivalent quantity of legitimate merchandise.

30. In addition, for at least some types of products — such as personal care products or small electronics – many commercial activities take place on a scale where the value of *legitimate* goods involved is less than RMB 50,000 (USD \$6,925) (the “illegal business volume” threshold). It follows that commercial scale buying and selling activities involving *counterfeit* goods of these types will involve values below that threshold.

31. The RMB 30,000 (USD \$4,155) “illegal gains” or “amount of profit” threshold is also problematic for two reasons. *First*, a business should *not* have to be profitable in order to be viewed as operating on a “commercial scale.” Requiring a minimum profit level of RMB 30,000 thus will not capture all relevant counterfeiting activity. *Second*, because the “illegal gains” threshold requires a calculation that shows profits, *i.e.*, revenue minus expenses, of at least RMB 30,000, the revenue realized must exceed RMB 30,000. Since the revenue calculation in turn is based on sales at prices likely to be deeply discounted to undercut sales of legitimate goods, the situation replicates the problems described above. Indeed, the “illegal gains” threshold for many low-margin products is in fact *higher* than the RMB 50,000 “illegal business volume” threshold. The lower the profit margin is for a product, the higher the volume of products needed to meet the “illegal gains” threshold.

32. Under Article 214 of the Criminal Law and the December 2004 JI, the sale of goods bearing counterfeit trademarks must meet a threshold of RMB 50,000 (USD \$6,925) in “amount of sales” before criminal procedures or penalties can be available. Pursuant to the December 2004 JI, the “amount of sales” refers to “all the illegal income gained or due to be gained from selling the goods that bear counterfeit trademarks.” By only focusing on the income gained or due to be gained from sales of the counterfeit goods, the “amount of sales” value threshold appears to apply to an even smaller subset of transactions than the “illegal business volume” threshold under Article 213 (which includes other activities, such as the manufacture, storage, and transportation of infringing goods).

33. Under Article 215 of the Criminal Law and the December 2004 JI, the forging or unauthorized reproduction of another’s registered trademark must meet one of the following three thresholds before criminal procedures or penalties can be available: an “illegal business volume” of more than RMB 50,000 (USD \$6,925); “illegal gains” of more than RMB 30,000 (USD \$4,155); or 20,000 copies. Because the “illegal business volume” and “illegal gains” thresholds are the same as for Article 213, the problems identified with respect to those thresholds apply with similar force. The copy threshold of 20,000 likewise provides no means to capture all commercial scale counterfeiting. To the contrary, it provides an exceedingly high threshold. A factory could store 19,999 counterfeit logos of a designer brand, and still evade the application of the Article 215 copy threshold.

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

35. The RMB 50,000 (USD \$6,925) “illegal business volume” threshold presents analogous problems to Articles 213 and 215 above, thereby shielding substantial piracy operations from the threat of criminal sanction under the thresholds. Moreover, the “illegal business volume threshold” can shelter commercial scale activities from criminal prosecution, regardless of how it is calculated. Sales activities involving *legitimate* DVDs, software, music CDs, or books, can take place beneath this threshold. If commercial activities involving legitimate DVDs, CDs, software, or books would not meet the “illegal business volume” threshold, commercial scale activities involving *pirated* goods will be far less likely to meet it.

36. The RMB 30,000 (USD \$4,155) “illegal gains” threshold in Article 5, first paragraph, of the December 2004 JI also presents real barriers to capturing all commercial scale piracy. The problems posed directly parallel the problems in the counterfeiting context described above.

37. Likewise, despite a new, lower threshold of 500 copies under Article 217, the copy threshold continues to exclude acts of commercial scale piracy. For example, if a copyright pirate



makes 499 reproductions or a retailer stocks 499 copies in a store, they could not be prosecuted or convicted under Article 217 of the Criminal Law based on the copy threshold, because the relevant threshold of 500 copies provided by the April 2007 JI would not be met.

38. Under Article 218 of the Criminal Law and the December 2004 JI, specific sales of infringing reproductions for the purpose of making profits must meet a threshold of RMB 100,000 (USD \$13,850) in “illegal gains” before criminal procedures or penalties can be available under Article 218. The problems identified in the paragraphs above apply with even greater force in this case.

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

40. For example, China’s thresholds rely solely on *finished* counterfeit or pirated goods to determine whether the thresholds are met; they do not consider *components* of counterfeit or pirated products. These components include packaging used for pirated CDs or DVDs, fabrics used for designer products, cartridge housings for video games, and other materials used to make counterfeit products. Seizure data collected in the course of Nintendo of America’s anti-counterfeiting campaign in China confirms this problem. The data indicate that, in many instances, a meaningful proportion of the seizures includes components of finished video game products, such as cartridge housings, cases and packaging, and other related materials and implements, such as hardware and manuals.

41. Indeed, as demonstrated above, China’s criminal thresholds permit commercial scale counterfeiting and piracy operations to continue in a safe harbor, without threat of criminal prosecution or conviction, so long as the pirates arrange their commercial activities to avoid meeting the very specific threshold tests that China uses.

42. Seizure data compiled by certain right holders regarding their anti-piracy and anti-counterfeiting efforts in China provide a vivid illustration of the problems the Chinese thresholds have created. The *Report on Copyright Complaints, Raids and Resulting Criminal Actions in China* (“CCA Report”) was prepared by the China Copyright Alliance (“CCA”). The CCA Report summarizes seizure data relating to administrative raids of suspected infringing products in retail markets in four major cities in China: Beijing, Shanghai, Shenzhen, and Guangzhou. The data were collected over a two-year period (January 2006 - November 2007).

43. In the aggregate, the CCA seizure data show that significant quantities of retail sales of infringing product takes place in China at levels below China’s thresholds. Indeed, less than 20% of retail establishments selling copyright-infringing music CDs or DVDs met the lowest relevant threshold. Therefore, the vast majority of retail outlets – a classic example of commercial scale activity – faced no possibility of criminal prosecution or conviction under the Chinese criminal thresholds.

44. Moreover, the CCA seizure data collected since the copy threshold for copyright piracy was changed to 500 copies in April 2007 confirm how rapidly counterfeiters and pirates respond to changes in China’s criminal thresholds. A striking congruence becomes evident when comparing the two sets of “below-the-thresholds” seizure data (i.e., for calendar year 2006 and for the period from April 5, 2007 to November 30, 2007), where the copy thresholds were 1000 and 500, respectively. More than 80% of all administrative raids in both of these two time periods netted evidence falling *below* the thresholds in effect at the time.

**B. Article 61, Second Sentence, of the TRIPS Agreement**

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

**C. Article 41.1 of the TRIPS Agreement**

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

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

47. The second set of U.S. claims concerns how the Chinese customs authorities must handle infringing goods seized at the border. The United States requests that the Panel find that (1) the compulsory sequences of steps set out in the Chinese measures at issue mean that Chinese customs authorities lack the authority to order destruction or disposal of infringing goods in accordance with the principles set out in Article 46 of the TRIPS Agreement, and (2) the measures at issue are therefore inconsistent with China’s obligations under Article 59 of the TRIPS Agreement.

48. Part III, Section 4, of the TRIPS Agreement imposes obligations related to border measures in the context of enforcement of intellectual property rights. In particular, the first sentence of Article 59 provides that “[w]ithout 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.*” (Emphasis added).

49. Article 46 of the TRIPS Agreement is contained in Section 2 (“Civil and Administrative Procedures and Remedies”) of Part III of the TRIPS Agreement. The first and fourth sentences of Article 46 are pertinent to the obligation in Article 59. The first sentence discusses both “destr[uction]” and “dispos[al],” the two terms in Article 59. By its terms, Article 46 requires that the judicial authorities of a Member “shall have” the authority to destroy infringing goods or to dispose of them outside the channels of commerce so as to avoid causing harm to the right holder. Transposing this requirement to the context of Article 59, the applicable principle must be that a Member’s competent authorities for border enforcement “shall have” the authority to destroy infringing goods or to dispose of them outside the channels of commerce so as to avoid causing harm to the right holder.

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

51. The border measures that govern the disposal and destruction of goods found to infringe intellectual property rights are described above. In particular, Article 27 of the Customs IPR Regulations and Article 30 of the Customs IPR Implementing Measures mandate a compulsory sequence of steps (or “items”) that Chinese Customs must take in deciding how to treat goods seized at the border that it has determined infringe intellectual property rights.

52. First, neither of the two components of the compulsory first “item” accords with Article 46 principles. The first item contains two parts. Customs ascertains whether the infringing goods can be used for “public good”; if so, Customs gives the goods to the relevant “public welfare organization.” Customs may also allow the right holder to purchase the goods “for compensation” – i.e., Customs offers the right holder the opportunity to buy the goods that infringe on the right holder’s intellectual property rights. The option under which a right holder can buy the infringing goods is not disposal “in such a manner as to avoid any harm caused to the right holder”: anyone who has to pay for goods that violates his or her own patent, trademark or copyright is harmed in the amount of the payment.

53. The second component of the first “item” – where Chinese Customs gives infringing goods to “public welfare organizations” – may or may not be available in a given case. Where a donation to a charity is an option, and the donation has the right-holder’s consent, this may be a socially beneficial disposition of infringing goods that also observes the principles of Article 46. On the other hand, allowing counterfeit goods to be used, even for “public good,” can be harmful to a right holder in certain cases.

54. Second, where the public welfare organization transfer is unavailable, and the right holder does not elect to purchase the infringing goods, the Customs authorities must turn to the second “item” relating to auction of the confiscated goods. This second “item,” which is also compulsory (once the first “item” has not led to disposal of the goods), likewise does not comport with the principles of Article 46. Putting the seized goods up for auction obviously both precludes destroying them, and introduces them into commerce. Moreover, taking this action without the right holder’s consent can cause great harm to the right holder.

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

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

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

57. Under the Berne Convention and the TRIPS Agreement, with very limited exceptions, a work acquires copyright protection immediately and automatically. Copyright arises immediately upon a work’s creation and, unlike patent rights and trademark rights, which may be (and often are) made conditional upon application and registration, copyright protection cannot be conditioned on the successful completion of any formalities, but instead arises automatically.

58. Because of the first sentence of Article 4 of the Copyright Law, however, China’s copyright regime does not meet this standard. Article 4 of the Copyright Law provides that “[w]orks the publication or distribution of which is prohibited by law shall not be protected by this Law. Copyright owners, in exercising their copyright, shall not violate the Constitution or laws or prejudice the public interests.” On its face, the first sentence of this provision denies immediate, automatic protection to certain works of creative authorship.

59. This provision of China’s Copyright Law has important negative consequences. By denying copyright protection to works that should have it, Article 4 allows copyright infringers to profit at the expense of the legitimate rightholder, without fear of being subjected to enforcement procedures and remedies for copyright infringement. Indeed, works that have already been created but cannot legally be published or distributed are denied copyright protection at a time when they most need it: when they cannot access the market, but when illegitimate copies are available. Pirated copies of films, publications, music, and other creative works are widely available in China. Furthermore, pirated copies often reach the market before legitimate copies do. Pirates, of course, do not wait for the results of content review or other regulatory approvals.

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

61. Several of the Berne Convention articles with which China must comply pursuant to TRIPS Article 9.1 are relevant in this dispute. To begin with, Article 5(1) of the Berne Convention provides that “[a]uthors shall enjoy, in respect of the works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted under this Convention.” Furthermore, Article 2 of the Berne Convention defines the “works for which [authors] are protected under this Convention,” as that phrase is used in Article 5(1).

62. The “rights specially granted under [the Berne Convention],” as mentioned in Article 5(1), refer to the various minimum rights required under the Berne Convention, including the exclusive right to authorize: the reproduction of protected works; translation of protected works; adaptations, arrangements and other alterations of protected works; and public performance and communication to the public. In this connection, it is important to emphasize that the exclusive right to authorize such economic activities is also the right to prohibit them; that is, the holder of these exclusive rights has the right to prevent others from exploiting the work (for profit or otherwise) without permission. Additionally, Article 5(2) of the Berne Convention provides, in relevant part, that “[t]he enjoyment and exercise of these rights [*i.e.*, the rights mentioned in Article 5(1)] shall not be subject to any formality . . . .”

63. First, contrary to China’s obligations under Article 9.1 of the TRIPS Agreement (and the provisions of the Berne Convention referenced in Article 9.1), the first sentence of Article 4 of the Copyright Law denies copyright protection to works that are entitled to such protection. Article 4 of the Copyright Law excludes from copyright protection an entire category of works – “works the publication or distribution of which is prohibited by law” – but that exclusion from protection is not permitted or even contemplated by the Berne Convention. Berne Convention Article 2(1) makes clear that the works protected by the Convention include “*every* production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression” (emphasis added), and Article 2(6) further makes clear that these works must enjoy copyright protection everywhere that the Berne Convention applies. The exclusion from protection contained in Article 4 of the Copyright Law is contained nowhere in the Berne Convention. That exclusion, therefore, is prohibited by the Berne Convention.

64. Moreover, Article 4 denies to the authors of such works the broad set of rights enumerated in Article 10 of the Law. The rights in Article 10 largely encompass the rights contemplated by the provisions of the Berne Convention. Authors of the works that are denied the protection of the Copyright Law also do not benefit from the remedies specified in Articles 46 and 47 of the Copyright Law, which provide civil liability (and in some case, administrative and/or criminal liability) for copyright infringement.

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

66. Furthermore, as noted above, Article 5(2) of the Berne Convention prohibits subjecting the enjoyment and exercise of the rights mentioned in Article 5(1) to any formality. However, China has made protection and enforcement under the Copyright Act dependent on the formality of successful conclusion of content review. The Copyright Law’s protection attaches only after such a work has been submitted for content review, and, if it passes that review unchanged, an authorization to publish and distribute the work has issued. As a formal matter, therefore, copyright protection is dependent, in part, on the issuance of the authorization to publish and distribute resulting from successful conclusion of the content review process.

67. To condition copyright rights on the successful completion of the content review process is to make those rights “subject to a formality,” as that term is interpreted in accordance with the customary rules of interpretation of public international law. In this context, “subject” can be defined to mean “dependent or conditional upon, resting on the assumption of”; and “formality” can be defined as “a formal or ceremonial act; a legal, authorized or customary procedure.”

68. Because content review is a formal, legally required procedure in China, and because the exercise and enjoyment of copyright rights are, for many works, dependent upon submission to and successful completion of content review, the content review process makes the exercise and enjoyment of copyright “subject to a formality” within the meaning of Article 5(2). By making protection under the Copyright Law dependent on successful completion of content review, China’s law thus is inconsistent with China’s obligations under Article 5(2) of the Berne Convention. China’s law therefore is also inconsistent with China’s obligations under Article 9.1 of the TRIPS Agreement.

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

70. Second, depending on the construction given to Article 4, its first sentence may also be inconsistent with China’s obligations under Article 14 of the TRIPS Agreement. Article 14.1 of the TRIPS Agreement requires WTO Members to give performers, *inter alia*, the possibility of preventing certain acts, and Article 14.2 of the TRIPS Agreement requires WTO Members to give producers of phonograms (sound recordings) the right to authorize or prohibit the direct or indirect reproduction of their sound recordings. The Copyright Law furnishes the legal basis within China for protecting these so-called “related rights” of performers and sound recording producers.

71. It is unclear whether Article 4 of the Copyright Law operates to deny the protection of the Law to performances (or their fixations) and sound recordings whose publication or distribution is prohibited. Article 4 uses the term “works,” a term that is defined in Article 3 of the Copyright Law. Sound recordings and performances (and their fixations) do not appear, strictly speaking, to be “works” within the meaning of Article 4. The United States is not certain that Article 4 is meant to be limited to “works” that are the subject matter of copyright, as opposed to encompassing as well the subject matter of related rights (such as performances and sound recordings). Therefore, to the extent that Article 4 of the Copyright Law is interpreted as applying to performances (or their fixations) and to sound recordings, it is also inconsistent with China’s obligations under Article 14 of the TRIPS Agreement.

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

73. The first sentence of Article 41.1 of the TRIPS Agreement provides that “Members shall ensure that enforcement procedures as specified in this Part [*i.e.* Part III of the TRIPS Agreement, which comprises Articles 41 through 61] are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements.” The “enforcement procedures as specified in this Part” include, *inter alia*, a number of civil judicial procedures concerning the enforcement of copyright and related rights. To the extent that these procedures are made available in Chinese law, it is Chapter V of the Copyright Law (“Legal Liability and Enforcement Measures”) that does so.

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

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

## **VI. CONCLUSION**

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