

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

***(WT/DS362)***

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

**JUNE 30, 2008**

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

1. The United States and a number of third parties have provided concrete illustrations of how China's thresholds permit wilful trademark counterfeiting and copyright piracy on a commercial scale to exist. The United States has faithfully used the customary rules of interpretation reflected in the *Vienna Convention* to explain the meaning of "commercial scale." First, by using the word "*scale*" in the term "commercial scale," the TRIPS Agreement makes clear that WTO Members must criminalize acts of infringement that reach a certain extent or magnitude. Second, in using the word "*commercial*" in the term "commercial scale," the TRIPS Agreement draws a link to the commercial marketplace – where business-minded IPR infringers take the fruits of their counterfeiting or piracy. Accordingly, 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. However, the meaning of the term "commercial scale" does not depend on the intent of the infringer.
2. Could a single sale of an infringing product qualify as "commercial scale" under this interpretation? That is a question that China repeatedly raises. The answer is that it is possible, but – as the United States has consistently emphasized – it would depend on the circumstances, including consideration of relevant factors noted by the United States and Third Parties.
3. China invites the Panel to substitute a concept that China has labeled "significant magnitude of activity," but this ignores the ordinary meaning of the term. *First*, China now reveals that it believes "commercial scale" is a measure of "significant business activity." Of course, neither "scale" nor "commercial" leads to "significant." Further, use of the term "commercial scale" sets up a contrast between "commercial" and "non-commercial" magnitudes of activity. And so the question is what is "non-commercial" scale, not what qualifies as "significant commercial-scale activity."
4. China provides no evidence that the Uruguay Round negotiators distilled a prevailing understanding of "commercial scale" from the unrelated sources cited by China; they are not "common usage" and are not a "special meaning" under the *Vienna Convention*. China also no longer asks this Panel to incorporate the definitions in the draft model provisions prepared by the WIPO International Bureau into Article 61. In our view, China should not be permitted to selectively refer to one aspect of that WIPO document – the mention of manufacturing – and then ignore the rest of the concept. (In that context, China now recognizes that "commercial scale" can be met by retail sales.) The document can *at most* be considered as a supplemental means of interpretation under the customary rules of interpretation; and when so considered, the document confirms the U.S. interpretation.
5. *Second*, China's efforts to persuade the Panel that "commercial scale" is a "broad and flexible" standard is fundamentally unsound. Article 61 must be interpreted in accordance with the customary rules of treaty interpretation; those rules do not divide treaty provisions into categories such as "broad" and "narrow." Moreover, nothing about the ordinary meaning of the term "commercial scale" leads to ambiguous interpretations. Any variation in Third Party views does not mean that "commercial scale" is susceptible to interpretations other than the U.S. interpretation. Indeed, many Third Parties have expressed views consistent with the United States – and noting that it may be necessary to consider multiple factors to decide whether a particular infringement is "on a commercial scale" in no way creates ambiguity or conflicts with the U.S. views.

6. *Third*, China now agrees that Article 1.1 and Article 41.5 do not allow WTO Members to ignore explicit TRIPS obligations. Moreover, the second sentence of Article 61 does not change how the first sentence should be interpreted; it only addresses the relative severity of the criminal remedies that must be available, whereas the first sentence addresses the floor (“on a commercial scale”) of what must be criminalized in the first place. *Fourth*, while China claims that criminal penalties must be actually applied to fulfill the first sentence of Article 61, U.S. practice is not at issue in this dispute, nor does it constitute “subsequent practice” in the application of the TRIPS Agreement by WTO Members. Similarly, whether or not China chooses to actually prosecute relatively smaller cases of wilful trademark counterfeiting or copyright piracy “on a commercial scale” is not at issue here.

7. *Fifth*, China also continues to seek special deference because of its non-common law legal system, but this tack should not be countenanced. China is free to provide an IPR enforcement regime consistent with, for example, systems in effect in countries with a civil law tradition. China also repeatedly mis-states the basis for *in dubio mitius* in its second submission. In fact, the Appellate Body has found that *in dubio mitius* applies when the meaning is “ambiguous,” and in this case there is no need to rely on this concept.

8. Even under China’s mistaken interpretation of “commercial scale,” China’s regime would still have to be considered inconsistent with its obligations under the TRIPS Agreement. For example, while China claims that the RMB 50,000 “illegal business volume” threshold is less than 30% of the annual revenue of households engaged in retail trade, it is difficult to imagine four months of retail activity not being “significant” infringement activity.

9. 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.” At no point does China claim that criminal prosecution or conviction under Articles 213, 214, 215, 217, and 218 is possible for any trademark counterfeiting or copyright piracy below the thresholds. China does not rebut the core issue: if a case fails to meet at least one of the thresholds, that fact will preclude criminal prosecution and conviction. China essentially concedes the existence of a safe harbor for some commercial-scale counterfeiting and piracy, and instead only attempts to chip away at the size of it. China’s new arguments are without merit.

10. *First*, even China cannot say that it reaches all of the examples of counterfeiting and piracy cited by the United States and others – the best that China can assert is that it reaches “most” of it. *Second*, the existence of China’s valuation methodology as a component of its thresholds is fully relevant; it creates a safe harbor, whether it is based on the value of the infringing goods or the legitimate goods. By relying on prices of infringing products, China contributes greatly to the capacity of the safe harbor to shelter commercial-scale counterfeiting and piracy.

11. *Third*, while China asserts that its thresholds can cover an extended time-frame of infringement, to the extent that China’s IPR regime requires not just commercial-scale activity, but *sustained* commercial scale activity, that additional requirement does not comport with Article 61. *Fourth*, China’s claims that certain “general provisions” of its Criminal Law – namely inchoate crimes and joint liability – can establish criminal procedures and penalties are without merit. That

“inchoate” crimes can be used to address evidence of *potential* infringement is beside the point. The inconsistency with Article 61 arises because China’s thresholds rule out criminal liability based on evidence of *actual* infringement that does not meet the metrics; *i.e.*, some *actual* infringement is exempted. China’s argument regarding “joint liability” is of no consequence with respect to infringers who work alone. China’s reference to the *Zhao Chaoying* case (Exhibit CHN-12) does not demonstrate that below-the-thresholds activity can be captured.

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

12. The first sentence of Article 59 provides in pertinent part that the “competent authorities shall have the authority to order the destruction or disposal of infringing goods in accordance with the principles set out in Article 46.” For the purposes of this dispute, this requires focus on the first and fourth sentences in Article 46. China’s Customs authorities do not have the authority to order the destruction or disposal of infringing goods in accordance with the Article 46 principles.

13. The United States has demonstrated the deficiencies in China’s broad claims of compliance with Article 59 and Article 46. For example, the China Customs statistics do not demonstrate that Chinese officials are able to exercise full Article 46 authority in dealing with such goods. China also fails in arguing that the authority to take action in accordance with Article 46 can be “reasonably conditioned” and that China simply includes certain “factors for discretion” in its Customs disposal regime. Article 46 describes the required scope of authority both to dispose of goods and to destroy goods – and nowhere includes the many obstacles and conditions present in the Chinese legal regime.

14. China’s view acting with a high “probability” that harm to the right holder will be avoided is enough does not accord with the text of Article 46. Authority to dispose of goods “in such a manner as to avoid any harm caused to the right holder” requires a structure and process that – as the text plainly states, actually “avoids any harm caused” – not that has *good prospects* for avoiding harm.

15. Further, China continues to pursue a number of arguments that misread the text of the last sentence of Article 46. *First*, while China claims that actions, such as reserve prices and comments from the right holder, qualify as more than the “simple removal” of the trademark, thus justifying its auctions under Article 46, the word “simple” in the phrase means what it says: Customs may not just remove the offending trademark from the goods and release such goods into the channels of commerce, *other than in exceptional cases*. (China concedes that, under its measures, in the case of counterfeit trademark goods, it only removes the infringing trademark.) *Second*, China’s reading of the term “release” in the last sentence of Article 46 is contrary to the text of Article 46, which says release into “channels of commerce” – not “return of the goods to the infringer.”

16. China concedes that when Customs finds certain facts are present, it is compelled to follow the particular step set forth in its measures. This is the core of the U.S. concern. The flowchart (Exhibit US-68) illustrates that in each of the circumstances denoted with the word “yes,” Customs lacks the required authority under the TRIPS Agreement. While China argues that the U.S. needs to provide factual evidence of harm in the case of the donation option, our claim is based on the *legal structure* that governs Customs’s decision-making. The lack of Customs’ *authority* to make these donations in accordance with Article 46 principles is evidenced by the Law on Public Donations,

which authorizes the sale into commerce of donated goods when certain conditions are present, and also the need for Customs to sign a donation agreement to avoid the sale of these goods.

17. Even with a donation agreement, sale into commerce appears to be possible. China's Contract Law indicates that when a contract contains a provision inconsistent with a Chinese law, the law prevails over that contract provision. China Customs' own regulations would not affect charitable organizations' rights under the Law on Donations to sell donated goods when circumstances change.

18. China's measures require Customs to move to the public auction step if the right holder does not pay for these goods (and donation is not appropriate). This will in fact have an impact on right holders' decisions about buying the infringing goods. If right holders pay for infringing goods, wishing to ensure that they are destroyed to prevent their auction, this payment causes financial harm.

19. Next, because China's mandatory procedures strip Customs of the authority to prevent auction when this option becomes operative in the Customs hierarchy, the auction procedures are inconsistent with the first sentence of Article 46. A public auction obviously is not destruction, and China does not dispute that it leads to release of such goods into the channels of commerce. While China attempts to argue that the trademarked goods it auctions are exempt from Article 46's protection, China's argument misses the point. In Article 46 last sentence, Members have already settled the issue raised by China – there is no requirement for a further showing of harm to the right-holder. Second, we have also shown that China's public auction step is inconsistent with the principle in the last sentence of Article 46, because China releases these goods into the channels of commerce as a matter of course, rather than only in exceptional cases.

20. As the flowchart indicates, the "destruction" step becomes operational only if no earlier options prove feasible. Then and only then, China Customs gains the power to destroy the infringing goods. The highly limited circumstances under which China's legal regime permits destruction do not comport with Article 46.

### **III. Article 4 of China's Copyright Law**

21. China has admitted that it denies copyright protection to certain works whose contents Chinese authorities determine are prohibited by law. The text of Article 4.1 itself demonstrates that China's measure is TRIP-inconsistent and it serves as the principal "fact" demonstrating our claim. We have also provided additional evidence, including a discussion of statements by China's Supreme People's Court; an explanation of the legal force of Chinese judicial interpretations and the relationship between Chinese judicial statements and Chinese administrative agency statements; China's own formal statements to the WTO about the operation of the Copyright Law; and analysis by recognized scholars and legal experts.

22. *First*, Article 4.1 of the Copyright Law is inconsistent with Berne Articles 2(1) and 2(6). *Second*, because Article 4 denies copyright protection to certain works, the exclusive rights enumerated in Article 10 of China's Copyright Law, and all the protections of the law, are also denied to such works. As a result, Article 4 of the Copyright Law does not comply with the requirements of Berne Article 5(1). These arguments were points made in the U.S. first submission about Article 4.

23. The scope of the Article 4.1 exclusion is not limited. China's apparatus for censorship suggest that many categories of works are potentially subject to being excluded from protection. The ongoing rampant infringement in China, including of works that have been censored or prohibited in China, suggests that there are serious implications for right holders. And to the extent that China means *foreign* marketplaces, the enforcement burden falls instead on the recipient countries of infringing exports as right holders do not have a crucial tool for preventing export. Moreover, foreign right holders unfamiliar with the Chinese Government's current content preferences cannot be sure whether or when copyright protection will be granted or denied.

24. Article 17 does not authorize a system that denies all enforceable copyright protection an entire category of disfavored works. If the Berne Convention drafters had sought to do so, they could have expressed this by using phrases in Berne Article 2(8) or Berne Article 2*bis*(1). Indeed, the power to censor does not mean that a right holder is stripped of its copyright and the ability to enforce against third parties who might produce or sell infringing copies in domestic or foreign markets. Leading copyright scholars agree. Censorship is distinct from a rightholder's right to authorize or prohibit certain uses of their expression of an idea by a third person.

25. *Third*, Article 4.1 makes copyright protection subject to a formality that is inconsistent with Berne Article 5(2), and therefore is also inconsistent with TRIPS Article 9.1. China acknowledges that it maintains pre-publication review with respect to the publication and distribution of certain kinds of works, including films and audiovisual products, and admits that in certain cases, it does not permit publication until content has been approved. Therefore, where pre-publication review is required and publication is prohibited until the completion of a successful review, Article 4 by its terms makes copyright protection subject to the results of that review – i.e., a formality.

26. The *Zheng Haijin* opinion demonstrates that courts examine the contents of a work before deciding whether or not copyright is protected. Indeed, China's statements demonstrate that when it comes time to enforce a copyright owner's rights in a work, they must prove that it passes content review in order to be awarded copyright protection. This is a clear condition precedent to copyright protection (or formality) that if not followed and satisfied, prevents the exercise and enjoyment of rights. Further, China has acknowledged the close overlap between the content review standards and what is "prohibited by law" for purposes of Article 4.1, rendering a distinction immaterial. Moreover, while China claims the content review measures cited by the United States are not referenced in the text of Article 4.1, there is nothing in Article 4.1 that states that the works for which publication or dissemination is prohibited must be prohibited solely by the Copyright Law.

27. *Fourth*, Article 4.1 is inconsistent with TRIPS Articles 41.1 and 61 first and second sentence because of the exclusion of certain civil and criminal remedies. Article 17 does not serve to justify China's exclusion of these remedies. The enforcement of a censorship prohibition simply cannot replace the enforcement of copyright in the works concerned. Indeed, a right holder's copyright rights include the application of certain remedies, such as civil remedies, which do not form part of the governmental enforcement of censorship.

28. With respect to DSU Article 3.7, China's statements in the context of this dispute have confirmed that this claim is "fruitful," as they have reinforced our concerns that Article 4.1 is inconsistent with China's TRIPS obligations.