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UNITED STATES WINS WTO DISPUTE OVER DEFICIENCIES IN CHINA'S INTELLECTUAL PROPERTY RIGHTS LAWS

WASHINGTON, D.C. – Acting U.S. Trade Representative Peter Allgeier announced today that a World Trade Organization (WTO) dispute settlement panel has found important aspects of China's intellectual property rights (IPR) regime to be inconsistent with China's obligations under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement). The United States brought claims against China because of serious concerns about several shortcomings in China's legal regime for protecting and enforcing copyrights and trademarks on a wide range of products.

“Today, a WTO panel found that a number of deficiencies in China's IPR regime are incompatible with its WTO obligations,” Ambassador Allgeier said. “These findings are an important victory, because they confirm the importance of IPR protection and enforcement, and clarify key enforcement provisions of the TRIPS Agreement. Having achieved this significant legal ruling, we will engage vigorously with China on appropriate corrective actions to ensure that U.S. rights holders obtain the benefits of this decision.”

Allgeier added, “We are pleased that the Panel found that China's denial of copyright protection to works that do not meet China's ‘content review’ standards is impermissible under the TRIPS Agreement. Additionally, we are pleased that the Panel found it impermissible for China to provide for simple removal of an infringing trademark as the only precondition for the sale at public auction of counterfeit goods seized by Chinese customs authorities.”

“We also welcome the Panel's clarification of China's obligation to provide for criminal procedures and penalties to be applied to willful trademark counterfeiting and copyright piracy on a commercial scale,” Allgeier continued. “The Panel did find, however, that it needed more evidence in order to conclude that actual thresholds for prosecution in China's criminal law are so high as to allow commercial-scale counterfeiting and piracy to occur without the possibility of criminal prosecution. While this conclusion is disappointing, the United States is encouraged that the Panel, facing a case of first impression, set forth a market-based analytical approach that should help WTO Members and panels avoid or resolve future disputes concerning obstacles to criminal enforcement against counterfeiting and piracy.”

The findings in the panel report will make an important contribution to China's efforts to improve its IPR enforcement regime, just as the imminent prospect of a WTO dispute contributed to China's cutting its threshold for criminal prosecution of copyright infringement in half just before the United States filed its complaint.

BACKGROUND

The United States initiated this WTO dispute in April 2007, after bilateral discussions spanning several years failed to resolve U.S. concerns. A panel was established to examine the matter in September 2007. In this dispute, the United States sought to eliminate three significant structural barriers in China's IPR enforcement laws. First, the Chinese Copyright Law does not protect copyrighted works that do not meet China's "content review" standards. This blanket denial of protection deprives certain copyright owners of vital enforcement tools to prevent unauthorized copies from being produced in China and distributed there or exported to other markets. The Panel found that this denial of protection is impermissible under Article 9.1 of the TRIPS Agreement, which incorporates Article 5(1) of the Berne Convention for the Protection of Literary and Artistic Works, and specifies that copyright protection, including guaranteed exclusive rights, must be afforded to works that are entitled to such protection. The Panel also found that this denial of protection is incompatible with Article 41.1 of the TRIPS Agreement, which requires enforcement procedures to be available to permit effective action against infringement of these copyrighted works.

Second, China's rules for disposing of IPR-infringing goods seized at the border provide for counterfeit goods to normally be auctioned subject only to the condition that the infringing trademark be removed. Returning these goods to the marketplace with only the infringing mark removed, however, could confuse consumers and harm the reputation of the legitimate product, facilitating – rather than deterring – further acts of infringement involving these goods. The Panel agreed with the United States that China's disposal rules are inconsistent with Articles 46 and 59 of the TRIPS Agreement, which do not permit trademark-infringing imports seized at the border to be released into the channels of commerce subject only to removal of the infringing trademark.

Third, China's laws provide for criminal prosecution of counterfeiting and piracy only when the trademark counterfeiting or copyright piracy exceeds specified legal thresholds (expressed in terms of the volume or value of infringing goods, e.g., 500 copies of a pirated DVD or approximately \$7,000 worth of counterfeit goods). Article 61 of the TRIPS Agreement requires criminal penalties and procedures to be available for all "commercial scale" copyright piracy and trademark counterfeiting. The United States pointed out that this provision means China has an obligation to establish standards for prosecution and conviction that capture all commercial-scale activity, and it cannot create thresholds so high as to be divorced from market realities. The United States also argued that China's specific thresholds fall short of these standards. (Immediately before this case was filed, China dropped its criminal copyright threshold from 1000 to 500 infringing copies.)

The Panel largely accepted the U.S. arguments concerning the appropriate construction of Article 61 of the TRIPS Agreement – concerning criminal enforcement obligations. It agreed with the

United States that the term “commercial scale” in that provision means that China cannot set its thresholds for prosecution of piracy and counterfeiting so high as to ignore the realities of the commercial marketplace. However, the Panel found that it would need additional evidence to apply Article 61 thus construed to China’s existing thresholds and find them wanting.

Importantly, the Panel clarified that whether acts of counterfeiting or piracy are “on a commercial scale” depends on factors such as the product at issue -- whether it is a designer watch, DVD, or a software title -- and the particular market in which it is sold. The Panel also made clear that determining what constitutes “commercial scale” must take into account the impact of technological developments, such as the Internet and the evolution of marketing practices that can enable pirates and counterfeiters to flourish with lower costs and in more pervasive ways.

Both the United States and China have an opportunity to appeal today’s report.

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