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

Report of the Panel

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TABLE OF WTO CASES CITED IN THIS REPORT

Short Title	Full Case Title and Citation
Australia – Automotive Leather II	Panel Report, *Australia – Subsidies Provided to Producers and Exporters of Automotive Leather*, WT/DS126/R, adopted 16 June 1999, DSR 1999:III, 951
Brazil – Retreaded Tyres	Appellate Body Report, *Brazil – Measures Affecting Imports of Retreaded Tyres*, WT/DS332/AB/R, adopted 17 December 2007
Brazil – Retreaded Tyres	Panel Report, *Brazil – Measures Affecting Imports of Retreaded Tyres*, WT/DS332/R, adopted 17 December 2007, as modified by Appellate Body Report, WT/DS332/AB/R
Canada – Pharmaceutical Patents	Panel Report, *Canada – Patent Protection of Pharmaceutical Products*, WT/DS114/R, adopted 7 April 2000, DSR 2000:V, 2289
EC – The ACP-EC Partnership Agreement II	Award of the Arbitrator, *European Communities – The ACP-EC Partnership Agreement – Second Recourse to Arbitration Pursuant to the Decision of 14 November 2001*, WT/L/625, 27 October 2005, DSR 2005:XXIII, 11703
EC – Bed Linen	Appellate Body Report, *European Communities – Anti-Dumping Duties on Imports of Cotton-Type Bed Linen from India*, WT/DS141/AB/R, adopted 12 March 2001, DSR 2001:V, 2049
EC – Chicken Cuts	Appellate Body Report, *European Communities – Customs Classification of Frozen Boneless Chicken Cuts*, WT/DS269/AB/R, WT/DS286/AB/R, adopted 27 September 2005, DSR 2005:XIX, 9157
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US – Gasoline	Panel Report, *United States – Standards for Reformulated and Conventional Gasoline*, WT/DS2/R, adopted 20 May 1996, as modified by Appellate Body Report, WT/DS2/AB/R, DSR 1996:I, 29
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Short Title	Full Case Title and Citation
US – Oil Country Tubular Goods Sunset Reviews	Appellate Body Report, *United States – Sunset Reviews of Anti-Dumping Measures on Oil Country Tubular Goods from Argentina*, WT/DS268/AB/R, adopted 17 December 2004, DSR 2004:VII, 3257
US – Section 110(5) Copyright Act	Panel Report, *United States – Section 110(5) of the US Copyright Act*, WT/DS160/R, adopted 27 July 2000, DSR 2000:VIII, 3769
US – Section 211 Appropriations Act	Panel Report, *United States – Section 211 Omnibus Appropriations Act of 1998*, WT/DS176/R, adopted 1 February 2002, as modified by Appellate Body Report, WT/DS176/AB/R, DSR 2002:II, 683
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US – Superfund	GATT Panel Report, *United States – Taxes on Petroleum and Certain Imported Substances*, L/6175, adopted 17 June 1987, BISD 34S/136
US – Section 301 Trade Act	Panel Report, *United States – Sections 301-310 of the Trade Act of 1974*, WT/DS152/R, adopted 27 January 2000, DSR 2000:II, 815
US – Tobacco	GATT Panel Report, *United States Measures Affecting the Importation, Internal Sale and Use of Tobacco*, DS44/R, adopted 4 October 1994, BISD 41S/131
US – Wool Shirts and Blouses	Appellate Body Report, *United States – Measure Affecting Imports of Woven Wool Shirts and Blouses from India*, WT/DS33/AB/R, adopted 23 May 1997, DSR 1997:I, 323
US – Zeroing (Japan)	Appellate Body Report, *United States – Measures Relating to Zeroing and Sunset Reviews*, WT/DS322/AB/R, adopted 23 January 2007

TABLE OF ABBREVIATIONS USED IN THIS REPORT

DSB	Dispute Settlement Body
DSU	Dispute Settlement Understanding
EC	European Communities
MAT	Mutually Agreed Translation
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

I. INTRODUCTION

1.1 On 10 April 2007, the United States requested consultations with the Government of the People's Republic of China pursuant to Articles 1 and 4 of the Understanding on Rules and Procedures Governing the Settlement of Disputes ("DSU") and Article 64 of the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement") (to the extent that Article 64 corresponds to Article XXII of the General Agreement on Tariffs and Trade 1994) with respect to certain measures pertaining to the protection and enforcement of intellectual property rights in China.[1] Consultations were held on 7-8 June 2007 but did not lead to a resolution of the dispute.

1.2 On 13 August 2007, the United States requested the Dispute Settlement Body ("DSB") to establish a panel pursuant to Article 6 of the DSU, with standard terms of reference.[2] At its meeting on 25 September 2007, the DSB established a Panel, pursuant to the request of the United States in document WT/DS362/7, in accordance with Article 6 of the DSU (WT/DSB/M/239).

1.3 The Panel's terms of reference are the following:

> "To examine, in the light of the relevant provisions of the covered agreements cited by the United States in document WT/DS362/7, the matter referred to the DSB by the United States in that document, and to make such findings as will assist the DSB in making the recommendations or in giving the rulings provided for in those agreements."

1.4 On 3 December 2007, the United States requested the Director-General to determine the composition of the Panel pursuant to paragraph 7 of Article 8 of the DSU.

1.5 On 13 December 2007, the Director-General accordingly composed the Panel as follows:

Chairperson: Mr. Adrian Macey

Members: Mr. Marino Porzio
Mr. Sivakant Tiwari

1.6 Argentina, Australia, Brazil, Canada, the European Communities, India, Japan, Korea, Mexico, Chinese Taipei, Thailand and Turkey reserved their rights to participate in the Panel proceedings as third parties.

1.7 The Panel met with the parties on 14-16 April 2008 and on 18-19 June 2008. It met with the third parties on 15 April 2008.

1.8 The Panel submitted its interim report to the parties on 9 October 2008. The Panel submitted its final report to the parties on 13 November 2008.

II. FACTUAL ASPECTS

A. MEASURES AT ISSUE

2.1 The measures at issue in this dispute are identified in the United States' request for establishment of a panel as follows:

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[1] WT/DS362/1.
[2] WT/DS362/7, attached as Annex D-1 to this report.

1. Thresholds for criminal procedures and penalties

2.2 The United States claims that China has not provided for criminal procedures and penalties to be applied in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale that fail to meet certain thresholds. China has established these thresholds through the following measures:

(a) the Criminal Law of the People's Republic of China (adopted at the Second Session of the Fifth National People's Congress on 1 July 1979 and revised at the Fifth Session of the Eighth National People's Congress on 14 March 1997), in particular Articles 213, 214, 215, 217, 218, and 220;

(b) the Interpretation by the Supreme People's Court and the Supreme People's Procuratorate on Several Issues of Concrete Application of Law in Handling Criminal Cases of Infringing Intellectual Property (adopted at the 1331st Session of the Judicial Committee of the Supreme People's Court on 2 November 2004 and the 28th Session of the Tenth Procuratorial Committee of the Supreme People's Procuratorate on 11 November 2004 and to be effective as of 22 December 2004); and

(c) the Interpretation by the Supreme People's Court and the Supreme People's Procuratorate on Several Issues of Concrete Application of Law in Handling Criminal Cases of Infringing Intellectual Property (II) (adopted on 4 April 2007, at the 1422nd Session of the Judicial Committee of the Supreme People's Court and the 75th Session of the Tenth Procuratorial Committee of the Supreme People's Procuratorate, and to be effective on 5 April 2007);

as well as any amendments, related measures, or implementing measures.

2. Disposal of goods confiscated by customs authorities that infringe intellectual property rights

2.3 The United States claims that China's measures for disposing of confiscated goods that infringe intellectual property rights are inconsistent with China's obligations under the TRIPS Agreement. In this regard, the measures at issue are:

(a) the Regulations of the People's Republic of China for Customs Protection of Intellectual Property Rights (adopted at the 30th Ordinary Meeting of the State Council on 26 November 2003, published by the State Council on 2 December 2003, and effective from 1 March 2004), in particular Chapter 4 thereof;

(b) 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 (adopted at an Administration Affairs Meeting of the General Administration of Customs on 22 April 2004, issued by the General Administration of Customs with Order No. 114 on 25 May 2004, and effective from 1 July 2004), in particular Chapter 5 thereof; and

(c) General Administration of Customs Announcement No. 16 (2 April 2007);

as well as any amendments, related measures, or implementing measures.

3. Denial of copyright and related rights protection and enforcement to works that have not been authorized for publication or distribution within China

2.4 The United States claims that China is acting inconsistently with its obligations under the TRIPS Agreement by denying the protection of its Copyright Law to creative works of authorship (and, to the extent Article 4 of the Copyright Law applies to them, sound recordings and performances) that have not been authorized for, or are otherwise prohibited from, publication or distribution within China. In this regard, the measures at issue are:

(a) the Copyright Law of the People's Republic of China (adopted at the 15th Session of the Standing Committee of the Seventh National People's Congress on 7 September 1990, and amended according to the Decision on the Revision of the Copyright Law of the People's Republic of China, adopted at the 24th Session of the Standing Committee of the Ninth National People's Congress on 27 October 2001), in particular Article 4; [3]

as well as any amendments, related measures, or implementing measures.

B. PROCEDURAL HISTORY

1. Translations

2.5 Paragraph 10 of the Working Procedures adopted by the Panel on 10 January 2008 provided that where the original language of exhibits or text quoted in a submission was not an official WTO language, the submitting party shall submit the original language version of that at the same time.

2.6 In view of certain differences between the parties' respective translations of certain measures the Panel, at its first substantive meeting, suggested that the parties submit mutually agreed translations of these measures. In communications dated 11 and 14 June 2008, the parties submitted mutually agreed translations ("MATs") of the following measures:

(MAT-1) Criminal Law (Articles 213, 214, 215, 217, 218 and 220)

(MAT-2) 2007 Judicial Interpretation (Articles 1 through 7)

(MAT-3) 2004 Judicial Interpretation (Articles 1 through 17)

(MAT-4) 1998 Judicial Interpretation (Article 17 paragraph 2)

(MAT-5) Prosecution Standards on Economic Crimes (Articles 8, 16, 23, 38, 39 and 70)

(MAT-6) Regulations on Customs Protection of Intellectual Property Rights (Article 27)

(MAT-7) Customs IPR Implementing Measures (Article 30)

(MAT-8) Customs Announcement No. 16/2007

(MAT-9) Measures on the Administration of Property Confiscated by Customs (Articles 1, 2, 3, 17 and 18)

[3] The United States does not request relief in respect of certain other measures specified in its request for establishment of a panel in conjunction with Article 4 of the Copyright Law.

(MAT-10) Law on Donations for Public Welfare

(MAT-11) Copyright Law (Articles 2 and 4)

(MAT-12) Regulations on the Administration of Films (Articles 2, 24, 25, 27, 28, 29, 31, 42 and 55)

(MAT-13) Regulations on the Administration of Audiovisual Products (Articles 2, 4, 28 and 36)

(MAT-14) Regulations on the Administration of Publication (Articles 6, 26, 27, 40, 44, 45 and 56)

2. Request for factual information from the International Bureau of WIPO

2.7 On 21 April 2008, the Panel sent a letter to the International Bureau of WIPO requesting its assistance in the form of any factual information available to it relevant to the interpretation of certain provisions of the Berne Convention for the Protection of Literary and Artistic Works (1971).[4] The parties had been given the opportunity to comment on the draft letter at the Panel's first substantive meeting.

2.8 The International Bureau's reply was received by the Panel and the WTO Secretariat on 7 June 2008. The Panel gave the parties an opportunity to submit comments on the reply by 7 July 2008. The United States submitted its comments on 7 July 2008. China informed the Panel that it would not submit comments on the WIPO reply. China submitted comments on the United States' comments on 21 July 2008.

2.9 The factual information provided by the International Bureau consists of a note that it prepared and 16 annexes containing excerpts from the Official Records of the various Diplomatic Conferences which adopted, amended or revised the provisions currently contained in Articles 5(1), 5(2) and 17 of the Berne Convention (Paris Act of 1971).[5]

III. PARTIES' REQUESTS FOR FINDINGS AND RECOMMENDATIONS

A. UNITED STATES

3.1 The United States requests that the Panel find that:

(a) China's IPR thresholds are inconsistent with China's obligations under Article 61, 1st and 2nd sentence, and Article 41.1 of the TRIPS Agreement;

(b) the compulsory sequences of steps set out in the Chinese measures 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 that the measures at issue are therefore inconsistent with China's obligations under Article 59 of the TRIPS Agreement;

(c) the first sentence of Article 4 of China's Copyright Law is inconsistent with Article 9.1 of the TRIPS Agreement, incorporating Articles 5(1) and 5(2) of the

[4] The Panel's letter is attached as Annex D-2 to this report.
[5] The International Bureau's Note, but not its annexes, is attached as Annex D-3 to this report.

Berne Convention (1971), as well as Article 14; Article 61, 1st and 2nd sentence; and Article 41.1 of the TRIPS Agreement.

3.2 The United States requests that the Panel recommend, pursuant to Article 19.1 of the DSU, that China bring its measures into conformity with the TRIPS Agreement.

B. CHINA

3.3 China requests that the Panel find China's measures to be consistent with China's obligations under the TRIPS Agreement.

IV. ARGUMENTS OF THE PARTIES

4.1 The arguments of the parties as set forth in their executive summaries of their written submissions submitted to the Panel, are attached to this Report as Annexes A and B (see List of Annexes, page v).

V. ARGUMENTS OF THE THIRD PARTIES

5.1 The arguments of the third parties as set forth in their executive summaries of their written submissions and oral statements submitted to the Panel, are attached to this Report as Annex C (see List of Annexes, page vi).[6]

VI. INTERIM REVIEW

6.1 On 9 October 2008, the Panel submitted its interim report to the parties. On 23 October 2008, the United States and China submitted written requests for review of precise aspects of the interim report. On 30 October 2008, the United States and China submitted written comments on each other's request for interim review.

6.2 The Panel has modified specific aspects of its report, where it considered appropriate, in light of the parties' comments as explained below, and made other modifications for the purposes of accuracy and clarity. References to paragraph numbers and footnotes in this Section VI refer to those in the interim report.

1. Copyright Law

Works that fail content review

6.3 China requests that the Panel consider amending paragraphs 7.87 and 7.103 to avoid confusion regarding the parties' respective descriptions of works that have failed content review.

6.4 The United States opposes this request, as it believes that the Panel has accurately characterized the positions that the parties expressed to the Panel.

6.5 The Panel has not made the requested modification but modified paragraphs 7.87 and 7.88 and made consequential changes to paragraphs 7.103 and 7.118 to clarify its characterization of works that have failed content review and works for which an edited version has been approved for distribution in China, and to explain why it does not accept some of China's description of such works.

[6] India, Thailand and Turkey did not make written submissions. Argentina, India and Turkey did not make oral statements.

Rights specially granted by the Berne Convention

6.6 The United States requests that paragraph 7.107 be modified so as to add a reference to Article 14*bis*, and to delete the reference to Article 14*ter*, in the list of rights specially granted by the Berne Convention (1971).

6.7 China responds that the request to add a reference to Article 14*bis* is not warranted. That Article does not articulate any independent rights, and the request is unnecessary in view of the Panel's footnote providing that the enumeration of minimum rights is without prejudice.

6.8 The Panel has modified the list to add a reference to Article 14*bis* which provides for the grant of a right to a particular category of works. The Panel has not deleted the reference to Article 14*ter*, as it provides for a distinct right, but this is without prejudice to the provisions of Article 14*ter*(2) and (3). The Panel has also deleted the reference to Article 13 and reiterates its statement in footnote 111 that this list is without prejudice to other such rights.

Effectiveness of prohibitions on content

6.9 China requests that paragraph 7.138 be modified to refer to Article 364 of the Criminal Law and Article 56 of the Film Regulations.

6.10 The United States responds that, in the context discussed in paragraph 7.138, China only referred to Article 56 of the Film Regulations and that that Article does not change the substance of the Panel's finding in that paragraph.

6.11 The Panel has not made the requested modification because the paragraph in question concerns the actual effectiveness of enforcement actions whilst China's comment refers to standards set out in legislation. The Panel has also merged this paragraph with the previous one, for clarity.

Other modifications

6.12 China requests a clarification in paragraph 7.101 regarding the jurisdiction of its copyright authorities. The Panel has made the clarification.

6.13 The United States requests that paragraph 7.136 be modified to track the text of the response quoted. The Panel has made the requested modification.

2. Customs measures

Donation to social welfare bodies

6.14 The United States requests that paragraph 7.310 be modified because there are circumstances in which donation is possible to other social welfare bodies besides the Red Cross.

6.15 China responds that the United States appears to misinterpret the second sentence of paragraph 7.310 because that sentence simply observes that Customs has the power to donate to the Red Cross in all instances where it can donate to other social welfare organizations.

6.16 The Panel has not made the requested modification. The point of the paragraph in question is that China Customs has authority to donate infringing goods to the Red Cross Society of China, with whom it has a donation agreement, and that authority to donate infringing goods to other social welfare bodies does not preclude that authority. The Panel has modified the paragraph, for clarity.

Auction and authority to order the destruction of infringing goods

6.17 The United States requests that paragraph 7.341 be modified due to a systemic concern because the Panel appears to take the position that the word "shall", when used in Chinese legal measures, does not impose a mandatory legal obligation. The meaning of the Chinese term translated as "shall" in the formal legal context differs from its meaning in other contexts. It was because of this difference that the parties agreed that the correct translation was "shall" for the purposes of translation into English. China confirmed that the use of the verb "shall" in the context of the measures at issue meant that once Customs makes particular findings it has a legal obligation to carry out the relevant disposal option.

6.18 China responds as follows: (1) in reaching the mutually agreed translation, there was no discussion between the parties on whether the meaning of the word translated as "shall" in formal legal contexts was different from its meaning in other contexts; (2) the Panel's assessment of the measure is a factual finding particular to this dispute and does not affect future assessments by other panels in other disputes involving China's domestic law; (3) the dictionary definition of the word translated as "shall" forms part of the Panel's assessment of the meaning of the measure and the Panel is within its authority in using such a source.

6.19 The Panel notes that the English word "shall" is only used in a non-authentic translation. Even then, the word is used specifically in the description of the auction method in only one of the three Customs measures, and that measure is a lower norm. The United States' case seems to place great weight on the choice of the word "shall" in the translation of that lower norm. This may not be the case in other disputes. However, in this dispute, the Panel is not satisfied that the translation, on an objective assessment, can support the conclusion that the United States apparently seeks to draw from it as regards the conformity of the measures at issue with China's WTO obligations. The Panel has modified the paragraph, in part as requested.

Auction and "simple removal of the trademark unlawfully affixed"

6.20 China requests a revision of the conclusion in paragraph 7.397(c) for the following reasons: (1) Article 46 does not apply to goods from which all infringing features have been removed as they are no longer infringing; (2) reaffixing a counterfeit trademark constitutes a separate act of infringement; and (3) US authorities may publicly auction merchandise after obliteration of the trademark.

6.21 The United States opposes this request, and responds to China's three reasons as follows: (1) this is just a variant of an argument that the interim report already disposes of in paragraphs 7.381-7.382; (2) this is irrelevant as the obligation in the fourth sentence of Article 46 refers to a procedure not the substantive legal effect of affixing a counterfeit trademark; (3) the United States has previously demonstrated that China's arguments regarding this aspect of US law are irrelevant and without merit.

6.22 The Panel has not made the requested modification for the reasons already given in paragraph 7.235 regarding the temporal scope of the obligations in Article 46, paragraph 7.264 noting that the "counterfeit trademark goods" referred to in the fourth sentence of Article 46 are a category of the infringing goods covered by that Article, and paragraphs 7.375 and 7.382 regarding the insufficiency of ceasing infringement. The Panel has modified paragraph 7.382 to emphasize that the fourth sentence of Article 46 imposes an additional requirement and clarified paragraph 7.388. The third point raised by China in its interim review comments concerns US measures which are not part of the matter before the Panel.

Exceptional cases

6.23 The United States requests a clarification before paragraph 7.396 that the Customs measures provide that simple removal of the trademark unlawfully affixed is sufficient to permit release of the goods into the channels of commerce in *more* than just exceptional cases.

6.24 China responds that the text of TRIPS uses the formulation "other than in exceptional cases" so that the request that the Panel alter the text of its finding is unwarranted by the record evidence and the text of TRIPS.

6.25 The Panel has added the requested clarification. The Panel has used the phrase "more than just exceptional cases" as requested because it indicates that the Customs measures do not comply with the formulation in the fourth sentence of Article 46 of the TRIPS Agreement as regards exceptional cases.

3. Criminal thresholds

Construction of the measures at issue

6.26 The United States requests that the subheading above paragraph 7.471 be modified.

6.27 China considers that the subheading is neither inaccurate nor misleading.

6.28 The Panel has made the requested modification, for clarity.

"on a commercial scale"

6.29 The United States requests adjustments of the text or the insertion of cross-references for clarity to indicate that certain paragraphs refer to the concept in paragraphs 7.579 and 7.580.

6.30 The Panel has not made the requested adjustments. Paragraph 7.600 states that the interpretation of "on a commercial scale" is set out in paragraph 7.579 and that the Panel will apply that interpretation in the following sub-section. Paragraphs 7.605 and 7.607 relate that interpretation to China's marketplace. The Panel has modified one aspect of paragraph 7.580 and added a new paragraph introducing the remainder of the Panel's assessment.

Article 63.3 of the TRIPS Agreement

6.31 The United States requests that paragraph 7.631 be modified to delete a reference to Article 63.3 of the TRIPS Agreement as it could be misunderstood.

6.32 China objects to this request because it understands that the Panel included this statement as part of the explanation of its treatment of the evidence on the record. The US concern is misplaced because Article 63.3 of the TRIPS Agreement is not part of the matter before the Panel and the Panel's use of the word "notwithstanding" indicated that the conclusions in this section are made setting aside any issues relating to Article 63.3.

6.33 The Panel has made the requested modification to avoid any possible misunderstanding as to the meaning of Article 63.3 of the TRIPS Agreement.

Physical evidence

6.34 The United States requests that paragraph 7.642 be modified as regards the anti-counterfeiting efforts of Nintendo of America.

6.35 China responds that paragraph 7.642 requires no change. Only three criminal cases were analysed in the Nintendo report and the record of this dispute does not disclose the status of two of them.

6.36 The Panel has made the requested modification, in part, but drawn no conclusion as to the status of two of the cases analysed in the Nintendo report.

VII. FINDINGS

A. COPYRIGHT LAW

1. Description of the measure at issue

7.1 This Section of the Panel's findings concerns China's **Copyright Law**. The Copyright Law was adopted by the Standing Committee of the National People's Congress and promulgated in 1990 then amended by a Decision of the Standing Committee of the National People's Congress in 2001. The claims concerning the Copyright Law address, in particular, the first sentence of Article 4. The parties agreed to translate that sentence as follows:

> "Works the publication and/or dissemination of which are prohibited by law shall not be protected by this Law."[7]

7.2 This Report refers to the first sentence of Article 4 as "Article 4(1)" for ease of reference, although the original version does not use paragraph numbers within that Article.

2. Claim under Article 2(6) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement

7.3 The United States informed the Panel in its comments on the draft descriptive part of this Report that it makes a claim under Article 2(6) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement. In this regard, it refers the Panel to arguments in its written submissions. It also notes that its request for establishment of a panel referred to "Articles 1 through 21 of the Berne Convention".[8]

7.4 The Panel recalls that its terms of reference are limited to the matter set out in the United States' request for establishment of a panel.[9] The Panel also recalls that Article 6.2 of the DSU provides that a request for establishment of a panel shall, *inter alia* "provide a brief summary of the legal basis of the complaint sufficient to present the problem clearly".

7.5 In the present dispute, the request for establishment of a panel refers to Article 5(1) and 5(2) of the Berne Convention (1971), followed by the incorporation provision in Article 9.1 of the TRIPS Agreement. The request sets out three sentences on the measure at issue, then one sentence reciting terms used in Article 5(1) of the Berne Convention (1971), followed by a conclusion under Article 9.1 of the TRIPS Agreement, then another sentence reciting terms used in Article 5(2) of the Berne

[7] Mutually agreed translation no. 11.
[8] United States' comments on the draft descriptive part of the report dated 4 September 2008.
[9] See the Notice of Constitution of the Panel in document WT/DS362/8.

Convention (1971), followed by a conclusion under Article 9.1 of the TRIPS Agreement. The request makes no specific reference to Article 2 of the Berne Convention (1971) at all.

7.6 It was in this context that the request for establishment of a panel recited part of the terms of Article 9.1 of the TRIPS Agreement, insofar as it requires all WTO Members to comply with "Articles 1 through 21" of the Berne Convention. There is no indication that the reference to the terms of the Berne Convention (1971) incorporated by Article 9.1 of the TRIPS Agreement was intended to refer to any particular provision of that Convention besides Article 5(1) and 5(2).

7.7 The Panel notes that Articles 2 and 5 of the Berne Convention (1971) are incorporated in the TRIPS Agreement by the same provision, i.e. Article 9.1 of the Agreement. However, a reference to Article 9.1 of the TRIPS Agreement and a broad reference to 28 incorporated provisions of the Berne Convention (1971) are not sufficient to "provide a brief summary of the legal basis of a complaint sufficient to present a problem clearly". In such circumstances, the respondent, third parties and the Panel cannot know which particular obligations under the Berne Convention (1971) are at issue.

7.8 The Panel notes that its approach to the proper way to summarize the legal basis of a claim under the provisions of an intellectual property convention incorporated in the TRIPS Agreement is consistent with the approach followed in the Panel Report in *EC – Trademarks and Geographical Indications (Australia)* which ruled that a claim regarding a provision of the Paris Convention (1967) that had not been specifically mentioned in the request for establishment of a panel was outside its terms of reference.[10]

7.9 For the above reasons, the Panel finds that the request for establishment of a panel discloses no claim under Article 2(6) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement.

7.10 Even if the Panel were to accept *arguendo* that the request for establishment of a panel had been unclear in its broad reference to the incorporated provisions of the Berne Convention (1971) and its specific reference to the "protection" of "works" (terms used in Article 2(6), as in many other provisions of the Berne Convention (1971)), the United States' first written submission did not explicitly make any claim regarding Article 2(6) of the Berne Convention (1971) either. The United States argued in its first written submission that several of the Berne Convention Articles with which China must comply pursuant to TRIPS Article 9.1 "are relevant" in this dispute. It quoted Article 5(1) of the Berne Convention (1971), then mentioned ten other provisions of that Convention in order to elaborate on the meaning of certain phrases used in Article 5(1), regarding "works" and "the rights specially granted".[11] Article 2(6) was one of those ten other provisions. None of those references hinted at a claim under any provision besides Article 5(1). The United States also argued that Article 4 of the Copyright Law excludes from copyright protection an entire category of works, but that exclusion from protection is not permitted or even contemplated by the Berne Convention. It mentioned six provisions of Articles 2 and 2*bis* of the Berne Convention (1971) in support of that argument.[12] Article 2(6) was one of those six provisions. However, there was no explicit statement that a separate claim was being made under Article 2(6).

7.11 China understood that the United States' claims under the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement, were made under Article 5(1) and 5(2).[13]

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[10] Panel Report in *EC – Trademarks and Geographical Indications (Australia)*, paras 7.37-7.43.
[11] United States' first written submission, paras 210-214.
[12] United States' first written submission, paras 215-216.
[13] China's first written submission, para. 232; rebuttal submission, para. 220.

7.12 None of the third parties referred to a claim under Article 2(6) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement.

7.13 Even in its rebuttal submission, the United States did not clarify explicitly that it wished to make a claim under Article 2(6) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement. Rather, it presented only two claims regarding the provisions of the Berne Convention. In the first, it argued that Article 4 of the Copyright Law denies copyright to works 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. Its arguments regarding "works" and "rights" supported a single claim which, in light of the request for establishment of a panel, appeared to be the original claim under Article 5(1), as incorporated by Article 9.1 of the TRIPS Agreement. It referred to two provisions of Article 2, one of which was Article 2(6), without expressly articulating a claim under Article 2(6). A subheading asserted an inconsistency with "Articles 2 and 5(1) of the Berne Convention" but, given that the definition of works in Article 2 is relevant to the claim under Article 5(1) (as shown in the Panel's consideration of the claim under Article 5(1) at paragraphs 7.115 and 7.116 below), it was still not clear that the United States wished to assert a separate claim under Article 2 of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement.

7.14 For the above reasons, even if the Panel were to accept *arguendo* that the request for establishment of a panel had been unclear, the Panel finds that the United States' submissions to the substantive meetings with the Panel did not clarify that a claim was being made under Article 2(6) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement, in accordance with Article 6.2 of the DSU.

7.15 Therefore, in light of the above, the Panel finds that a claim under Article 2(6) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement, lies outside the Panel's terms of reference.

3. Claim under Article 5(1) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement

(a) Main arguments of the parties

7.16 The United States claims that Article 4(1) of China's Copyright Law denies the protection of the Copyright Law to certain categories of works, and refers to the text of that sentence. The United States recalls that China, during a review of its legislation in the Council for TRIPS in 2002, explained that this sentence referred to works of which the publication or distribution was prohibited by such laws and regulations as the Criminal Law, the Regulation on the Administration of Publishing Industry, the Regulation on the Administration of Broadcasting, the Regulation on the Administration of Audiovisual Products, the Regulation on the Administration of Films and the Regulations on the Administration of Telecommunication. The United States gives examples of four regulations that prohibit the publication or distribution of works under various circumstances.[14] The United States claims that Article 4(1) of China's Copyright Law denies to the authors of works "the publication or distribution[15] of which is prohibited by law" the broad set of rights enumerated in Article 10 of the Copyright Law, which largely encompasses the rights contemplated by the provisions of the Berne Convention (1971). Nor do authors of works denied protection of the Copyright Law benefit from the remedies specified in Articles 46 and 47 of the Copyright Law. Consequently, the authors of such works do not enjoy the minimum rights that are "specially granted" by the Berne Convention,

[14] United States' first written submission, paras 68-69, referring to Review of Legislation (China) in document IP/Q/CHN/1, p. 26; and paras 70-85.

[15] This translation was taken from China's notification to the Council for TRIPS in IP/N/1/CHN/C/1. The parties later agreed that it should be translated as "publication and/or dissemination".

inconsistently with Article 5(1) of that Convention.[16] The United States submitted more detailed arguments with respect to content review in relation to Article 5(2) of the Berne Convention (1971) (see paragraph 7.145 below).

7.17 China responds that copyright vests upon creation and is independent of publication. Article 2 of the Copyright Law grants full copyright protection by expressly incorporating into Chinese law the rights conferred under international agreements, including the Berne Convention and the TRIPS Agreement. In contrast, Article 4(1) of the Copyright Law is extremely limited in scope. China, like many other countries in the world, bans from publication and dissemination such works as those that consist entirely of unconstitutional or immoral content. Article 4(1) simply provides that such a work shall not be protected by the Copyright Law. China argued in its first written submission that the application of Article 4(1) was not dependent on content review or any other regulatory regime related to publication and that the only result of a finding of prohibited content in that process was a denial of authority to publish, not a denial of copyright. Specifically, China argued that works that fail content review were not denied copyright protection.[17] Article 17 of the Berne Convention (1971) subjects to the sovereign power of governments all of the rights otherwise granted by that Convention.[18]

7.18 At the first substantive meeting with the Panel, the United States stated that China's written submission appeared simply to concede that Article 4 of its Copyright Law was inconsistent with its obligations under the TRIPS Agreement because it admitted that Article 4(1) denies protection to works whose contents are prohibited.[19]

7.19 At the same meeting, China confirmed parts of its first written submission but clarified that, with respect to a work edited to pass content review, it would protect copyright in the edited version of the work, including against copies of the unedited version that infringed copyright in the edited, approved version. With respect to works that *failed* content review, China informed the Panel that it intended to provide additional written comments and clarification of its position later.[20]

7.20 China provided its additional comments together with its responses to the Panel's questions after the first substantive meeting and asked the Panel to rely on these additional comments to the extent that they were inconsistent with its first written submission. China confirmed that it would protect copyright where a work was edited to pass content review. Where no authorized edited version had been created, it would enforce copyright in the legal portion of the original work against copies of an unauthorized edited version. However, it would not enforce copyright against unedited, prohibited copies of an unedited, prohibited work that failed content review.[21]

7.21 At the same time, in response to the Panel's questions, China submitted that Article 4(1) of the Copyright Law did not affect the vesting of copyright under Article 2 of that Law. China asked the Panel to note that under the Chinese system of copyright, "copyright" and "copyright protection" are distinguishable. To the extent that Article 4(1) of the Copyright Law would come into play with respect to a work, it would operate not to remove copyright, but to deny the particularized rights of private copyright enforcement.[22]

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[16] United States' first written submission, paras 217-219.

[17] China's first written submission, paras 228-230 and 234-254. Paras 243-252 were later revised by China's response to Question No. 52.

[18] China's first written submission, paras 255-263.

[19] United States' first oral statement, para. 79.

[20] China's first oral statement, paras 81-86.

[21] China's response to Question No. 52. See also responses to Question No. 51 and US Question No. 2.

[22] China's response to Question No. 44; reiterated in its rebuttal submission, para. 281.

7.22 The United States notes that China admits that it denies copyright protection to certain works whose contents Chinese authorities determine are prohibited by law and submits that, therefore, China has confirmed that it is acting inconsistently with its obligations under Article 9.1 of the TRIPS Agreement. The United States rebuts China's arguments as follows: first, even if Article 2(2) of the Copyright Law grants protection to foreigners' works, Article 4(1) denies protection to those for which publication or distribution is prohibited by law. Article 2 cannot, by the terms of Article 4, apply to such works. Second, as Article 4 denies the exclusive rights enumerated in Article 10 of the Copyright Law, the minimum set of exclusive rights guaranteed by Article 5(1) of the Berne Convention (1971) is denied to such works. The distinction between "copyright" and "copyright protection" is not found in the text of the Berne Convention and is irrelevant. Third, Article 4(1) creates significant commercial uncertainty and, where it is clear that a work has been denied copyright protection, allows pirates to profit at the expense of the legitimate right holder, including by exporting.[23] Article 17 of the Berne Convention (1971) does not permit Members to deny copyright protection to authors in their respective works.[24]

7.23 China responds that the United States has failed to make a prima facie case with respect to its view that copyright protection is contingent upon content review (see paragraph 7.145 below). The whole claim with respect to Article 4(1) of the Copyright Law must therefore fail. With respect to the claim of a facial violation, there is a strong presumption that a Member's law is WTO-compliant and the United States has offered no evidence in support but the text of Article 4(1) of the Copyright Law itself. Article 2 of the Copyright Law directly implements an author's rights under the Berne Convention into Chinese law. The scope and operation of Article 4(1) of the Copyright Law are extremely limited.[25] The sovereign power to prohibit works, recognized in Article 17 of the Berne Convention (1971), permits Members to maintain a provision of law such as Article 4(1) of the Copyright Law.[26]

(b) Main arguments of third parties

7.24 Argentina considers that Article 4(1) of the Copyright Law appears to deny to works that are prohibited or not permitted the protection established in Article 10 of the Copyright Law, which contains the rights enumerated in the Berne Convention (1971). This does not imply that China has no right to prohibit the publication or distribution of certain kinds of works. In fact, Article 17 of the Berne Convention (1971) contemplates such a possibility.[27]

7.25 Canada notes that China has admitted that Article 4(1) of its Copyright Law refers to works, including those of the Berne Union, that the Chinese authorities find unconstitutional or immoral, and that these works are not protected in China. Canada does not see how this conclusion is affected by the second sentence of Article 2 of the Copyright Law as Article 4 seems to take precedence. Canada agrees that Members can prohibit the publication and distribution of work but considers that Members do not have a right to deny copyright protection to them.[28]

7.26 The European Communities notes that China acknowledges that Article 4(1) of its Copyright Law denies copyright protection for works "the publication or distribution of which is prohibited" because of "unconstitutional or immoral" or "reactionary, pornographic or superstitious" content. Such denial of protection is not covered by the exemptions or limited exceptions permitted under the

[23] United States' rebuttal submission, paras 184-194.
[24] United States' rebuttal submission, para. 221.
[25] China's rebuttal submission, paras 225-226, 266-269, 276-277 and 281.
[26] China's rebuttal submission, paras 286-306.
[27] Argentina's third party written submission, paras 89-91.
[28] Canada's third party written submission, paras 22-23; third party oral statement, para. 15.

Berne Convention (1971) and the TRIPS Agreement. Article 17 of the Berne Convention (1971) does not allow limiting exclusive rights or even exempting works from protection.[29]

7.27 Chinese Taipei considers that, without a content review, it can never be determined whether a work is unconstitutional or immoral. Works that have not passed, or that fail to pass, content review are prohibited from distribution by law, which means that they fall within the scope of Article 4(1) of the Copyright Law. Clarification is required as to whether China protects works that have not been submitted for a content review or that are pending authorization. Even if Article 4(1) of the Copyright Law were limited to works that fail to pass a content review, this withdrawal of protection would be inconsistent with the obligation under Article 9.1 of the TRIPS Agreement and Article 5(1) of the Berne Convention (1971). Chinese Taipei shared the view of both parties that China has the right to conduct content review based on Article 17 of the Berne Convention (1971).[30]

(c) Consideration by the Panel

(i) Construction of the measure at issue

7.28 The Panel notes that this claim challenges China's Copyright Law, in particular Article 4(1), not as it has been applied in any particular instance but "as such". The parties have disagreed on the proper interpretation of that measure since shortly after the first substantive meeting. Therefore, the Panel is obliged, in accordance with its mandate, to make an objective assessment of the meaning of the relevant provisions of that measure. In this context, the Panel is mindful that, objectively, a Member is normally well-placed to explain the meaning of its own law.[31] However, in the context of a dispute, to the extent that either party advances a particular interpretation of a provision of the measure at issue, it bears the burden of proof that its interpretation is correct.[32] The Panel emphasizes that it examines the measure solely for the purpose of determining its conformity with China's obligations under the TRIPS Agreement.[33]

7.29 The United States claims that Article 4(1) of the Copyright Law on its face denies immediate, automatic protection to certain works of creative authorship.[34]

7.30 China responds that this claim is based on the "mistaken view" that copyright protection in China is contingent upon successful completion of content review.[35] In the course of addressing the issue of when copyright vests under Chinese law, China acknowledged that Article 4(1) of the Copyright Law denies protection to certain works due to their content.[36]

7.31 The United States stated at the first substantive meeting that, in view of that acknowledgement, China appeared simply to concede that Article 4 of the Copyright Law was inconsistent with China's obligations under the TRIPS Agreement.[37] Canada and the European

[29] European Communities' third party written submission, paras 22-27; oral statement, para. 21.
[30] Chinese Taipei's third party written submission, paras 33-40.
[31] China stresses that part of this claim involves "an arcane area of Chinese law, with little practical application, and with respect to which there is little or no practical experience on which to base legal judgments": see China's response to Question No. 52.
[32] See the Panel Reports in *EC – Trademarks and Geographical Indications (US)*, at para. 7.55, and *EC – Trademarks and Geographical Indications (Australia)*, at para. 7.106.
[33] See Appellate Body Report in *India – Patents (US)*, paras 65-68.
[34] United States' first written submission, para. 196.
[35] China's first written submission, para. 8.
[36] China's first written submission, paras 229 and 243
[37] United States' first oral statement, para. 79.

Communities, as third parties, took the same view.[38] Argentina considered that the text of Article 4 was straightforward.[39]

7.32 After that meeting, China clarified the terms of its earlier acknowledgement. It clarified that Article 4(1) denies "copyright protection" in the sense of enforcement but does not disturb "copyright".[40]

7.33 The United States dismissed China's clarification as an "artificial distinction".[41]

7.34 The Panel begins its assessment by observing that Chapter I of the Copyright Law comprises eight articles. Article 1 sets out the purpose of the law, which includes the purpose of protecting the copyright of authors in their literary, artistic and scientific works and the rights and interests related to copyright.

7.35 Article 2 sets out criteria of eligibility for protection. The first paragraph (to which the Panel will refer as "Article 2(1)") may be translated as follows:

> "Chinese citizens, legal entities or other organizations shall enjoy copyright in their works in accordance with this Law, whether published or not."[42]

7.36 The second (to which the Panel will refer as "Article 2(2)") may be translated as follows:

> "The copyright enjoyed by foreigners or stateless persons in any of their works under an agreement concluded between China and the country to which the author belongs or in which the author has his habitual residence, or under an international treaty to which both countries are parties, shall be protected by this Law."[43]

The Berne Convention (1971) is defined as an "international copyright treaty" for the purposes of the Provisions on the Implementation of International Copyright Treaties.[44]

7.37 Article 3 sets out a non-exhaustive list of "works" for the purposes of this Law, including works of literature, art, natural sciences, social sciences, engineering and technology which are created in the form of any of a series of enumerated works.

7.38 Article 4 provides *inter alia* that certain "works" shall not be protected by this Law.

7.39 Article 5 sets out subject matter to which this Law does not apply (that appears to concern subject matter that falls into the public domain or is considered to lack originality).

7.40 Article 6 provides that certain works will be dealt with in other measures.[45]

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[38] Canada's third party written submission, para. 22; European Communities' third party written submission, para. 22, third party oral statement, para. 21.

[39] Argentina's third party written submission, para. 82.

[40] China's response to Question No. 44; rebuttal submission, paras 280-281.

[41] United States' second oral statement (closing statement), para. 25.

[42] Mutually agreed translation no. 11.

[43] Mutually agreed translation no. 11.

[44] Provisions on the Implementation of International Copyright Treaties, promulgated by decree of the State Council in 1992 and effective from 1992, Article 3, reproduced in Exhibit CHN-117. These Provisions, which predate the TRIPS Agreement, do not refer to the TRIPS Agreement in the definition of "international copyright treaties", although other legal provisions might. The United States has not challenged this aspect of the measure.

7.41 A link can be observed between Article 2(2) and 4(1). Article 2(2) provides that the copyright enjoyed by certain foreigners in any of their works "shall be protected by this Law" (受本法保护) whilst Article 4(1) uses identical language with the addition of a negative (不) to provide that certain works "shall not be protected by this Law" (不受本法保护). This suggests that Article 4(1) denies what Article 2(2) grants.

7.42 Turning to Article 4(1), the text of this provision is quoted at paragraph 7.1 above.

7.43 The term "works" (作品) is defined in the previous article, Article 3.

7.44 The term "publication and/or dissemination" (出版、传播) was agreed between the parties as an appropriate translation. The parties had earlier used the phrases "publication or distribution" and "publication and dissemination". China alleges that the word translated as "dissemination" (传播) has a distinct, and wider, meaning than a word commonly used in its content review regulations, which may be translated as "distribution" (发行).[46]

7.45 The term "prohibited by law" (依法禁止), on its face, is not limited to any particular piece of legislation but could apply to any law that prohibits the publication and/or dissemination of a work. The United States alleges that it refers to "other laws and regulations".[47] In any event, it is clear from its wording that the provision applies to a class of "works", the class being defined as those the publication and/or dissemination of which are, in some way, prohibited by law. (This phrase is examined in greater detail at paragraphs 7.72 to 7.82 below.)

7.46 The phrase translated as "shall not be protected by this Law" (不受本法保护) does not include the word "shall" in the original, as it uses no modal verb. However, it is not disputed that Article 4(1) of the Copyright Law is mandatory. The reference to "this Law" (本法) is evidently a reference to the Copyright Law. On its face, it refers to the protection of the Copyright Law and not to any subset of its protection.

7.47 The United States explained that this phrase provided for the denial of the rights enumerated in Article 10 of the Copyright Law and the remedies in Articles 46 and 47 of the Copyright Law.[48] China agreed that it included all the rights listed in Article 10.[49]

7.48 The Panel observes that the protection provided by the Copyright Law is addressed *inter alia* in Chapter II, Section 1 titled "Copyright Owners and Their Rights". That Section includes Article 10, which provides that "copyright" includes a list of four moral rights and 13 economic rights set out in the first paragraph of that Article. The economic rights include, for example, (5) the right of reproduction; (11) the right of broadcasting; (14) the right of adaptation; and (15) the right of translation. Every specific right in that list relates to "a work" (作品). The second paragraph of Article 10 provides that copyright owners may "authorize" others' exercise of the economic rights set out in subparagraphs (5) through (17). Chapter II, Section 3, titled "Term of Protection for the Rights" provides in Article 21 for the term of "protection" for the economic rights set out in subparagraphs (5) through (17) of the first paragraph of Article 10.

7.49 The economic rights appear to be exclusive rights in light of, *inter alia*, Article 11, which provides that the copyright in a work shall belong to its author, and Article 24, which provides that

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[45] The remaining provisions of Chapter I concern the departments responsible for administration (Article 7); and collective copyright administration (Article 8).

[46] China's first written submission, fn. 261.

[47] United States' rebuttal submission, para. 201.

[48] United States' first written submission, paras 217-218.

[49] China's response to Question No. 89.

anyone who exploits another person's work shall conclude a copyright licensing contract with the copyright owner, subject to exceptions.

7.50 The Panel finds that the Copyright Law is sufficiently clear, on its face, to show that Article 4(1) denies the protection of Article 10 to certain works, including those of WTO Member nationals, as the United States claims.

7.51 This interpretation is consistent with, and clarified by, the view expressed by the Supreme People's Court of China in the course of domestic litigation in 1998, to which the Panel will refer as "the *Inside Story* case".[50] The United States submitted a letter sent from the Supreme People's Court to a provincial Higher People's Court during that case, which the Supreme People's Court reissued in 2000.[51] This letter, from China's highest judicial body, is instructive in the interpretation of Article 4(1) of the Copyright Law.[52] That case concerned a book, the publication of which violated administrative regulations but the content of which did not violate any laws. In the letter, the Court ruled that it was correct for the courts of the first and second instances to provide protection under the Copyright Law to the book at issue for the following reason:

> "The *Inside Story* was originally published in the magazine 'Yanhuang Chunqiu' (1994, No. 2). In May of the same year, the United Front Department of the Sichuan Provincial Communist Party Committee reviewed the book and approved its publication. Nothing was found in the text of the *Inside Story* to violate any laws. Therefore, it is correct for the courts of the first and second instances to provide it protection under the Copyright Law."[53]

7.52 The Panel finds that the Supreme People's Court letter confirms that Article 4(1) of the Copyright Law denies copyright protection and clarifies that Article 4(1) applies where the publication and/or dissemination of a work is prohibited due to its content.

7.53 The Panel notes that China's own submissions support this view. In the course of its submission that the application of Article 4(1) of the Copyright Law does not depend on content review or any other regulatory regime related to publication (in defence of the claim that content review constituted a "formality" under Article 5(2) of the Berne Convention (1971)), China made the following statements:

> "China, like many countries in the world, bans from publication and dissemination such works as those that consist entirely of unconstitutional or immoral content. Art. 4.1 simply provides that such a work also shall not be protected by the Copyright Law. …"[54]

> "As a matter of law, Article 4.1 of the Copyright Law only denies protection to works whose contents are completely unconstitutional or immoral."[55]

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[50] The title of the book that was the subject of the dispute begins with the words "Inside Story".

[51] Letter from the Supreme People's Court to the Hunan Province Higher People's Court in *Zheng Haijin v Xu Zheng Xiong and Tianjin People's Publishing House* (知监字 [1998] Letter no. 33). The letter was redistributed by the Supreme People's Court on 9 March 2000 in an intellectual property document series. It is now listed on the website of the State Intellectual Property Office under the heading "judicial interpretation" (司法解释). The original version is reproduced in Exhibit US-60.

[52] The Panel notes that judicial decisions in China do not have a binding effect for other courts but serve as a reference only.

[53] Exhibit US-60.

[54] China's first written submission, para. 229.

[55] China's first written submission, para. 243.

> "China also notes that to the extent that Art. 4.1 independently of the content review process might act to deny copyright protection to a work independently found by a court to be prohibited by law, this act of prohibition is protected by Berne Convention Art. 17 …"[56]

7.54 China submitted a written reply from the National Copyright Administration of China ("NCAC") to the Supreme People's Court in the *Inside Story* case, in response to a request from the Supreme People's Court prior to sending the letter quoted at paragraph 7.51 above. China quoted the NCAC reply in its first written submission which stated, in part, as follows:

> "Under the Copyright Law, the copyright is created upon the composition of the work. In general, the author is entitled to the copyright, and is protected by the Copyright Law. Only works the publication or dissemination of which are prohibited by law are not protected by the Copyright Law. Yet the '[w]orks the publication and dissemination of which are prohibited by law' in Article 4 of the Copyright Law refer only to works whose contents are illegal (reactionary, pornographic, or superstitious contents). If the contents of *Inside* are illegal, it will not be protected by Copyright Law, and all the presses shall neither publish nor disseminate it. …"[57]

7.55 From the above, China concluded in its first written submission as follows:

> "Thus, the NCAC had clarified that only when the contents of the work are found to be illegal will Article 4.1 come into play; violation of publishing rules does not deprive the right-holder the right to have its copyright protected and enforced by law."[58]

7.56 In its first oral statement, China stated as follows:

> "China also notes that while Article 4.1, on its face, could operate to deny protection to works whose contents are illegal or immoral, the content review process operates independently of Article 4."[59]

7.57 The above evidence confirms the Panel's finding at paragraph 7.50 above, as confirmed and clarified at paragraph 7.52. Later, China continued to confirm the same point (subject to a clarification, discussed at paragraph 7.61 below) but explained that denial of protection under Article 4(1) of the Copyright Law was subject to a determination by a court or the NCAC. In response to questions after the first substantive meeting, China stated that:

> "Article 4.1 of China's Copyright Law empowered China's courts and the National Copyright Administration of China to deny copyright protection to works that are prohibited by law."[60]

7.58 In its rebuttal submission, China reiterated the point as follows:

> "Nor does Art. 4.1 function in any other way as a condition precedent to copyright. … Art. 4.1 is envisaged by China's authorities to operate as a condition subsequent in

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[56] China's first written submission, para. 280.

[57] China's first written submission, para. 243, quoting a reply from the Copyright Administration Department of the NCAC (权司 [1998] No. 39) to the Intellectual Property Rights Tribunal of the Supreme People's Court, reproduced in Exhibit CHN-118.

[58] China's first written submission, para. 243.

[59] China's first oral statement, para. 83.

[60] China's response to Question No. 44.

> one narrow judicial context, and to the extent that it so operates, it is entirely consistent with the requirements of the Berne Convention."[61] (footnote omitted)

7.59 China specifically acknowledged that it would not protect the copyright in the unedited, prohibited version of a work that failed content review where enforcement action was requested against unedited, prohibited infringing versions.[62]

7.60 All of the above statements confirm the Panel's view, based on the evidence submitted by the United States including, in particular, the wording of the Copyright Law on its face, that Article 4(1) of that Law provides for the denial of copyright protection to certain works based on their content.

7.61 However, after the first substantive meeting, China provided a clarification of its earlier statements. China submits that Article 4(1) of the Copyright Law does not lead to a denial of "copyright" but only of "copyright protection". China argues that Article 4(1) of the Copyright Law does not affect the vesting of copyright afforded by Article 2. The core principle is that Chinese law will not enforce the protection of the Copyright Law for works the contents of which are already illegal. China explained as follows:

> "To the extent that Art. 4.1 would come into play with respect to a work, it would operate not to remove copyright, but to deny the particularized rights of private copyright enforcement. Art. 4.1 thus does not operate in any manner that would violate Berne Art. 5(1): it does not destroy the residual Art. 2 copyright. If applied, its effect would be to deny to the right-holder the power of private censorship that would generally be available to non-prohibited works."[63]

7.62 In response to questions after the second substantive meeting, China argued that, after "protection" is denied under Article 4(1), the underlying recognition – the "enjoyment" of, or "entitlement" to, copyright – would continue.[64] As noted earlier, the United States submits that this distinction is artificial.[65]

7.63 The Panel notes that China equates the "protection" of the Copyright Law referred to in Article 4(1) with enforcement rights. However, China does not show any suitable basis in the text of Article 4(1) that would limit its effect to a subset of the protection under the Copyright Law. China contrasts the "protection" of the Copyright Law referred to in Article 4(1) with the "enjoyment" of copyright in accordance with Article 2 of the Copyright Law. However, the concepts referred to in Articles 2(2) and 4(1), on their face, are identical. China points out that Article 4(1) does not state that certain works "shall not enjoy copyright".[66] That is true, but the protection of the Law *is* copyright.

7.64 China's argument distinguishing "copyright" from "copyright protection" also contrasts the vesting of copyright under Article 2 of the Copyright Law, which allegedly occurs upon creation of a work automatically without formality, on the one hand, with the procedure for denial of copyright under Article 4(1) of the same Law, which allegedly occurs only after a determination by a court or the NCAC during an enforcement proceeding, on the other hand.

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[61] China's rebuttal submission, para. 261.
[62] China's response to Question No. 52.
[63] China's response to Question No. 44; see also its response to Question No. 45; rebuttal submission, paras 280-281.
[64] China's response to Question No. 92.
[65] United States' second oral statement (closing statement), para. 25.
[66] China's response to Question No. 88.

7.65 The United States submits that the fact that an author may not be on official notice of the operation of Article 4 until the denial of protection is stated by an authoritative content review agency or court does not appear to alter the way in which the law operates.[67]

7.66 The Panel considers that the distinction drawn by China is inapposite. It appears to be a consequence of the rule that the enjoyment and exercise of copyright shall *not* be subject to any formality whilst the denial of protection, in China's view, *is* subject to a formal determination. Even accepting the distinction at face value, it does not properly address the situation *after* a court or the NCAC has denied protection to a work under Article 4(1) of the Copyright Law. It is difficult to conceive that copyright would continue to exist, undisturbed, after the competent authorities had denied copyright protection to a work on the basis of the nature of the work and the prohibition in the Copyright Law itself.

7.67 After a denial of copyright protection under Article 4(1) of the Copyright Law, China has not explained in what sense authors would enjoy copyright, or copyright would exist, in their works. For example, it has not explained how authors would be able to assert ownership of, license, or transfer copyright in their works. To the extent that any copyright exists under Article 2 in this situation, it would seem to be no more than a phantom right, the existence of which could not be demonstrated. Therefore, on the basis of the evidence submitted, the Panel is unable to conclude that, after a work is denied protection under Article 4(1) of the Copyright Law, the author could enjoy "copyright" in that work.

7.68 In any event, the scheme of the TRIPS Agreement is one which provides for certain subject matter to enjoy protection under Part II, and Members must ensure that procedures to enforce that protection are available as specified in Part III. Where a Member's law provides that eligible subject matter shall not be protected by an intellectual property law, this is not simply a provision that the enforcement procedures shall not be available, inconsistent with Part III. Rather, it is inconsistent with Part II as well. Whilst China's judicial authorities may decide that they will not provide particular remedies in particular circumstances in the exercise of their own discretion, Article 4(1) of China's Copyright Law goes further by denying protection of eligible subject matter altogether.

7.69 China refers to the letter of the Supreme People's Court and to the written reply of the NCAC in the *Inside Story* case, both quoted above, in support of a distinction between "copyright" and "copyright protection".[68] The Panel observes that those distinguished authorities used the language of Article 4(1) of the Copyright Law and that the NCAC related Article 4(1) both to copyright protection and to the enjoyment of copyright.[69] Therefore, the Panel sees no reason why this evidence would lead to a different conclusion from that reached based on the wording of the Copyright Law on its face.

7.70 China asserts that Article 2 of the Copyright Law directly implements an author's rights under the Berne Convention (1971) into Chinese law and that, so long as copyright is granted under the Berne Convention, that right is protected by Chinese law.[70] China does not argue that any international treaty prevails over the terms of the Copyright Law with respect to foreign works in case

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[67] United States' rebuttal submission, para. 188.

[68] China's responses to Questions Nos. 88 and 92.

[69] The NCAC reply referred to in note 57 above explained as follows:

"However if the contents do not violate the law … the work does not fall within the scope of the '[w]orks the publication and dissemination of which are prohibited by law' in Article 4 of the Copyright Law. … [T]he contents of the book were not illegal, thus it is proper to affirm that Zheng Haijin *enjoys the copyright* in Inside." (emphasis added)

[70] China's first written submission, para. 240; rebuttal submission, paras 276-277. China does not argue that it directly implements the TRIPS Agreement.

of any deviation from the obligations in an international treaty.[71] Rather, China specifically confirms that Article 4(1) is envisaged as a limited exception to this general principle in Article 2.[72] Therefore, the Panel sees no reason to consider the possible direct effect of the rights specially granted by the Berne Convention (1971), as incorporated by the TRIPS Agreement.

7.71 For the above reasons, the Panel does not consider that China has provided any evidence that would disturb its finding at paragraph 7.50 above.

(ii) Criteria for prohibited works

7.72 The Panel will now consider the range of works that are subject to Article 4(1) of the Copyright Law. This depends in large part on the meaning of the phrase "the publication and/or dissemination of which are prohibited by law" as used in Article 4(1). The Panel recalls its finding at paragraph 7.45 above that that term, on its face, is not limited to any particular law.

7.73 The United States submits an illustrative list of laws and regulations prohibiting publication or distribution that, in its view, lead to the denial of copyright protection under Article 4(1) of the Copyright Law. The list was provided by China during the Council for TRIPS review of its legislation in 2002 in a response to a question regarding the laws and regulations to which Article 4(1) of the Copyright Law refers. The laws and regulations mentioned are the Criminal Law, the Regulations on the Administration of Publishing Industry, the Regulations on the Administration of Broadcasting, the Regulations on the Administration of Audiovisual Products, the Regulations on the Administration of Films, and the Regulations on the Administration of Telecommunication.[73]

7.74 China confirms that the listed laws reference a legal standard defining what kind of works, or contents, are prohibited.[74] In response to a question from the Panel, China confirmed that the term "prohibited by law" has a broad meaning, and may refer to the criteria set forth in various provisions of some of the laws and regulations in this list, so that a work that contains contents prohibited by such laws is a prohibited work within the meaning of Article 4(1) of the Copyright Law.[75]

7.75 The Panel notes the parties' eventual agreement regarding criteria for prohibited works but, in view of the evolution of this issue during this proceeding, the Panel will review the evidence.

7.76 The letter from the Supreme People's Court of China in the *Inside Story* case shows that Article 4(1) of the Copyright Law was considered inapplicable in that case because nothing was found in the text of the work at issue to violate "any laws".[76] The terms of the letter were not limited to any particular laws but appear to include any law that determines the legality of content.

7.77 The written reply of the NCAC to the Supreme People's Court of China in the same case was translated as follows:

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[71] For example, under a specific provision such as Article 19 of the Provisions on the Implementation of International Copyright Treaties, set out in Exhibit CHN-117, or general principles of law.

[72] China's response to Questions Nos. 45 and 89; rebuttal submission, para. 280.

[73] United States' first written submission, para. 69, referring to document IP/Q/CHN/1, p. 26. This list was also reproduced in the request for establishment of a panel but the United States, in its submissions to the Panel, does not request relief in respect of these measures in conjunction with Article 4 of the Copyright Law: see paragraph 2.4, note 3 above. China confirmed that the referenced "Regulations on the Administration of Telecommunication" are the Regulations on Telecommunications cited in note 82 below: see China's first written submission, fn. 261.

[74] China's first written submission, fn. 261.

[75] China's response to Question No. 90.

[76] See paragraph 7.51 above, referring to letter from the Supreme People's Court reproduced in Exhibit US-60.

> "Yet the '[w]orks the publication and dissemination of which are prohibited by law' in Article 4 of the Copyright Law refer only to works whose contents are illegal (reactionary, pornographic, or superstitious contents)."[77]

7.78 China, in its first written submission to the Panel, interpreted this as follows:

> "As a matter of law, Article 4.1 of the Copyright Law only denies protection to works whose contents are completely unconstitutional or immoral."[78]

7.79 The broad criteria quoted in China's submission appeared to the Panel to be subsets of the criteria applied under the content review regulations. For example, Article 25 of the Regulations on the Administration of Films, Article 3 of the Regulations on the Administration of Audiovisual Products and Article 26 of the Regulations on the Administration of Publications contain identical lists of ten categories of prohibited content in films, audiovisual products and publications, including those that:

> "(1) are against the fundamental principles established in the Constitution;
>
> (2) jeopardize the unification, sovereignty and territorial integrity of the State;
>
> (3) divulge State secrets, jeopardize security of the State, or impair the prestige and interests of the State;
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> (4) incite hatred and discrimination among ethnic groups, harm their unity, or violate their customs and habits;
>
> (5) propagate cults and superstition;
>
> (6) disrupt public order and undermine social stability;
>
> (7) propagate obscenity, gambling, or violence, or abet to commit crimes;
>
> (8) insult or slander others, or infringe upon legitimate rights and interests of others;
>
> (9) jeopardize social ethics or fine national cultural traditions;
>
> (10) other contents banned by laws, administrative regulations and provisions of the State."[79]

7.80 China confirmed that content falling within categories (1), (2) and (7) were "clearly unconstitutional".[80] Categories (5) and (7) on their face refer to "superstitious" and "pornographic" content, or "immoral" content, which is mentioned in paragraphs 7.77 and 7.78 above. In response to a question from the Panel, China submitted that the phrase "prohibited by law" may refer to the above

[77] See paragraph 7.54 above. The NCAC is a competent administrative agency under the Copyright Law in accordance with Article 7 of the Law.

[78] China's first written submission, para. 243.

[79] Mutually agreed translation no. 12.

[80] China's first written submission, fn. 255, referring to the 1982 Constitution, Articles 52-54, reproduced in Exhibit CHN-122.

substantive criteria[81] and to provisions such as Article 57 of the Regulations on Telecommunications[82] and Article 364 of the Criminal Law.[83]

7.81 The Panel notes that the list of prohibited content in the three content review Regulations set out at paragraph 7.79 includes six other categories of content that were not mentioned by the NCAC. However, the Panel does not infer that the NCAC meant that the criteria to determine whether the publication and/or dissemination of a work are prohibited by law for the purposes of Article 4(1) of the Copyright Law are narrower than the complete list of criteria in the content review regulations. The written reply of the NCAC listed three broad criteria, followed in the original version by 等, meaning "etcetera", indicating that they were not exhaustive, and the written reply was provided in the context of a case where the issue was whether a prohibition of publication for administrative reasons *unrelated* to content fell foul of Article 4(1) of the Copyright Law. China's submissions referred to at paragraph 7.74 above appear to confirm this view.

7.82 For the above reasons, the Panel accepts that prohibited works for the purposes of Article 4(1) of the Copyright Law include works that contain content considered illegal under the criteria set out in the law and regulations listed at paragraph 7.73 above, including the content review regulations.

(iii) Procedure for determination that a work is prohibited for the purposes of Article 4(1)

7.83 The Panel notes that the range of works "prohibited by law" may depend not only on the criteria by which content is considered illegal but also on the procedure for determination that a work contains illegal content for the purposes of Article 4(1) of the Copyright Law.

7.84 The United States claims that Article 4(1) of the Copyright Law applies to (a) works never submitted for content review in China; (b) works awaiting the results of content review in China; (c) the unauthorized versions of works edited for distribution in China; and (d) works that have failed content review.[84]

7.85 China, in its first written submission, submitted that the content review process operates independently of Article 4(1) of the Copyright Law and that the only result of a finding of prohibited content is a denial of authority to publish. Nothing in that finding leads to a denial of copyright.[85] However, after the first substantive meeting, China revised lengthy sections of its first written submission with respect to the relationship between copyright and content review.[86]

7.86 China maintains that "[t]he process of content review remains, as an administrative matter, separate from copyright."[87] The only authorities competent to make a decision under Article 4(1) of the Copyright Law are the courts and the NCAC. However, a court or the NCAC, when making a decision on copyright protection under Article 4(1) of the Copyright Law, would be "deferential" to a content review finding. When a content review authority makes a determination that a work contains prohibited content, that finding will "guide" a determination by the NCAC or the courts that the work

[81] China's response to Question No. 90, listing in fn. 3 the ten criteria set forth in Article 25 of the Regulation on the Administration of Films.

[82] Article 57 of the Regulations on Telecommunications adopted by the Standing Committee of the State Council on 20 September 2000, and promulgated by Decree No. 291 of the State Council on 25 September 2000, contains many of the same criteria as Article 25 of the Regulation on the Administration of Films. The Regulations on Telecommunications are reproduced in Exhibit CHN-124.

[83] Article 364 of the Criminal Law prohibits *inter alia* the dissemination of pornographic materials. Article 364 is reproduced in Exhibit CHN-1.

[84] United States' first written submission, para. 198.

[85] China's first written submission, paras 246.

[86] See China's response to Question No. 52.

[87] China's rebuttal submission, para. 242.

would be considered "prohibited by law". China specifically acknowledges that when a work has failed content review it will not protect the copyright in the unedited, prohibited version of a work against infringing versions that also are unedited and prohibited. Nor will it protect copyright in the deleted portion of a work edited in order to pass content review.[88]

7.87 The Panel will first consider works that have failed content review as a whole.[89] The parties agree that such works are prohibited works under Article 4(1) of the Copyright Law. The Panel recalls that Article 4(1) denies prohibited works the protection of the Copyright Law, not just a sub-set of the protection of that Law. China asserts that works that have failed content review can receive protection under the Copyright Law in a situation where the illegal content has been deleted. The Panel observes that this situation does not apply where the work that failed content review is considered illegal in its entirety. If a prohibited work includes some legal content, and an edited version has been produced without approval, China asserts that it "will enforce the copyright in the legal portion of the original work, even though that work itself – as a whole – is prohibited by law."[90] However, China did not explain how this was possible under its law. Therefore, the Panel finds that the class of prohibited works under Article 4(1) of the Copyright Law includes works that have failed content review.

7.88 The Panel now considers works that have passed content review subject to a requirement to delete specific illegal content.[91] China protects the approved version but acknowledges that it will not protect the deleted illegal content.[92] It is not clear on the face of the Copyright Law if or how Article 4(1) applies where enforcement is sought against infringing copies of the unedited version. The Panel notes China's position in this proceeding that:

> "China notes that it also will enforce the right-holder's copyright in [a situation] where there is an authorized edited version. In that case, the copyright will be protected irrespective of whether the infringing copy is of the edited or the unedited version."[93]

7.89 The Panel now turns to works never submitted for content review in China and works awaiting the results of content review in China. The United States provides no specific examples where such works have been denied copyright protection.[94] The claim, with respect to these categories of works, is based on the response given by China in the Council for TRIPS' review of its legislation referred to at paragraph 7.73 above, and the United States' own construction of the relationship between these other measures and the Copyright Law.

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[88] China's responses to Questions Nos. 45 and 52 posed by the Panel and to Question No. 2 posed by the United States; rebuttal submission, para. 249.

[89] For example, the evidence shows that when approval was declined for certain audiovisual products, the content review notices stated that the films as a whole violated relevant criteria, without listing the illegal content: see Exhibits CHN-142, CHN-143, CHN-144 , CHN-145 and CHN-146.

[90] China's response to Question No. 52.

[91] For example, the evidence shows that when approval was granted for certain audiovisual products, the licence was accompanied by a list of specific scenes to be deleted from some of them: see Exhibit CHN-147.

[92] China's response to Question No. 2 posed by the United States.

[93] China's response to Question No. 52.

[94] China submits that this is because no such examples exist: see China's response to Question No. 52; rebuttal submission, para. 234. However, China also submitted that the Supreme People's Court is not aware of a single instance in which a defendant in a copyright infringement action successfully asserted a defence that the work did not enjoy copyright because it failed a content review process (first written submission, para. 277) but later acknowledged that it would not protect copyright in such a work under certain conditions (response to Question No. 52).

7.90 The Panel will first consider the content review regulations. The Regulations on the Administration of Films, in Article 24, provide as follows:

> "Article 24. Films which have not been reviewed and approved by the film review institutions under the administrative department of radio, film and television under the State Council … shall not be distributed, projected, imported or exported." [95]

7.91 The Regulations on the Administration of Audiovisual Products, in Article 36, provide for mandatory content review prior to wholesaling, retailing or rental of audiovisual products.[96]

7.92 It is not disputed that films and audiovisual products that have not yet been approved under the Regulations on the Administration of Films or the Regulations on the Administration of Audiovisual Products, as the case may be, may not be published and/or distributed. Although none of the content review regulations submitted in evidence makes any express provision for the denial of copyright protection, they do provide for the prohibition of publication of films and audiovisual products. Whilst it seems plausible that films and audiovisual products in this situation might be considered *ipso facto* works the publication of which is prohibited for the purposes of Article 4(1) of the Copyright Law, it is not clear if another determination is required that their *content* violates these Regulations before the works are considered prohibited works within the scope of Article 4(1).

7.93 The Regulations on the Administration of Publications do not provide for mandatory government content review prior to publication. However, in Articles 40 and 44, they do prohibit the distribution by a "distribution entity", or the importation by a "publication importation entity", of publications containing prohibited content.[97] A determination would appear to be required that their content violates these Regulations before such works are considered prohibited works within the scope of Article 4(1) of the Copyright Law.

7.94 Two of the measures listed by the United States prohibit certain content without providing a procedure for content review.[98] These are the Regulations on Telecommunications[99] and the Criminal Law.[100] Accordingly, with respect to these two measures, a determination is required that works violate these measures for the purposes of Article 4(1) of the Copyright Law.

7.95 Where no content review has taken place, it is not clear on the face of any of these measures how a determination is made that a work is prohibited within the meaning of Article 4(1) of the Copyright Law. China submits that if no prior review has taken place, a court or the NCAC must determine legality or illegality *de novo* and that this would normally be the case for most books, periodicals and newspapers, foreign works not released in China, works pending review and other unpublished books and works that may have illegally bypassed the reviewing process and are in unlicensed circulation.[101] China also submits that the court or the NCAC could be expected to solicit opinions from the content reviewing authorities.[102]

7.96 The question arises as to the status of copyright in such works in the absence of a determination for the purposes of Article 4(1) of the Copyright Law. The Panel notes that Article 2 of the Copyright Law, on its face, provides that copyright in certain works shall be protected by the

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[95] Mutually agreed translation no. 12. Article 31 also provides that films to be imported for public show shall be submitted to the film review institution for review before importation.

[96] Mutually agreed translation no. 13.

[97] Mutually agreed translation no. 14, where the word "distribute" translates the word "发行".

[98] China's first written submission, fn. 261.

[99] See note 82 above.

[100] See note 83 above.

[101] China's rebuttal submission, para. 249.

[102] China's response to Question No. 45.

Copyright Law. Article 6 of the Regulations for the Implementation of the Copyright Law of 2002 (the "Copyright Implementing Regulations") provides that "[a] copyright shall subsist on the date when a work is created."[103]

7.97 Whilst it is clear on the face of the measure that Article 4(1) of the Copyright Law denies copyright protection to certain works, it does not necessarily follow that this pre-empts the subsistence of copyright protection under Article 2, as implemented by Article 6 of the Copyright Implementing Regulations, from the time of creation of the work up until the time that a competent authority makes a decision under Article 4(1) of the Copyright Law. Consequently, it is not clear to the Panel whether works not submitted for mandatory content review and works awaiting the results of content review would fall within the scope of Article 4(1) of the Copyright Law. [104]

7.98 The Panel has also reviewed evidence of specific instances of administrative enforcement submitted by China. With respect to works never submitted for content review, the evidence includes examples of pirated versions of foreign textbooks. The Panel notes that Decision notices for administrative penalties were issued by the NCAC and two subsidiary copyright bureaux in June and October 2006 under Article 47 of the Copyright Law to three universities for unauthorized reproduction and distribution of textbooks.[105] However, the Panel does not find these instances instructive as (1) there is no mandatory pre-publication content review procedure for university textbooks; and (2) the textbooks concerned subjects such as bridge design, social welfare, physics and economics that do not have any obvious relationship to the content prohibited under the relevant Regulations.

7.99 With respect to works awaiting the results of content review, the evidence includes an example of a "special" administrative enforcement action with respect to pirated audio-visual products of one foreign animated film, *Shrek 2*, before the genuine version was approved for marketing.[106] The Panel notes that administrative penalty documents citing Article 47 of the Copyright Law and Article 36 of the Copyright Implementing Regulations were issued in September 2004 to one audio-visual shop in Xiamen relating to the distribution of unauthorized DVD copies of *Shrek 2*.[107]

7.100 The evidence also includes a Circular of the NCAC issued in November 2001 to subsidiary copyright bureaux in order to enhance enforcement actions against a list of 788 foreign cinematographic works in response to a request from the Motion Picture Association of America. The introductory paragraph of the Circular indicates that this was also a special action. The Circular included works without enquiry as to whether they had all been edited to pass content review and, in accordance with paragraph 2, it applied *inter alia* to pirated DVDs coded for zones outside China, which may include unedited versions not approved during content review.[108]

7.101 The United States responds that the NCAC and local copyright bureaux are administrative agencies with no authority to interpret the Copyright Law in cases that are before the courts.[109] China replies that Articles 46 and 47 of the Copyright Law and Articles 217 and 218 of the Criminal Law provide three means of enforcement of copyright: civil procedures, administrative procedures and

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[103] Exhibit CHN-19.

[104] China's response to Question No. 52.

[105] Exhibits CHN-136, CHN-137, CHN-138 and CHN-139. An investigation report by a provincial copyright bureau against university textbooks in Exhibit CHN-140 did not cite the Copyright Act.

[106] United States' first written submission, paras 239-241, citing a statement of China in the minutes of a meeting of Council for TRIPS in IP/C/M/46 at para. 203 in Exhibit US-57; cf. China's first written submission, paras 268-270.

[107] China's first written submission, para. 270, referring to Exhibits CHN-132; CHN-133; CHN-134; response to Question No. 95.

[108] Circular No. 55 of the National Copyright Administration 权司 [2001] No. 55 in Exhibit CHN-141.

[109] United States' first oral statement, paras 85-86.

criminal procedures, and that the courts have jurisdiction over civil and criminal matters while the NCAC has jurisdiction over administrative matters.[110]

7.102 The Panel notes that the NCAC is a competent administrative agency under the Copyright Law[111] and that the Supreme People's Court of China sought its view in the *Inside Story* case on the issue under examination in this claim. Therefore, the Panel considers that it may take this evidence into account. However, the Panel notes that both instances discussed in paragraphs 7.99 and 7.100 above occurred in special circumstances and there is no indication in the second instance that any enforcement procedures actually took place. Therefore, the Panel gives this evidence little weight in its assessment of the Copyright Law as such. Accordingly, the Panel reiterates its comments at paragraph 7.88 and 7.97 above.

7.103 For the reasons set out above, the Panel finds that the class of works denied protection under Article 4(1) of the Copyright Law includes works that have failed content review and, to the extent that they constitute copyright works, the deleted portions of works edited to satisfy content review. The Panel considers that the United States has not made a prima facie case with respect to works never submitted for content review in China, works awaiting the results of content review in China and the unedited versions of works for which an edited version has been approved for distribution in China.

(iv) Article 5(1) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement

7.104 This claim is made under Article 9.1 of the TRIPS Agreement, insofar as it incorporates Article 5(1) of the Berne Convention (1971). Article 9.1 of the TRIPS Agreement provides as follows:

> "Members shall comply with Articles 1 through 21 of the Berne Convention (1971) and the Appendix thereto. However, Members shall not have rights or obligations under this Agreement in respect of the rights conferred under Article 6*bis* of that Convention or of the rights derived therefrom."

7.105 The United States and China are both WTO Members and, accordingly, both are bound by the TRIPS Agreement, including the incorporated provisions of the Berne Convention (1971). The provisions of the Berne Convention (1971) incorporated by Article 9.1 of the TRIPS Agreement include Article 5(1) of that Convention, which provides as follows:

> "(1) Authors shall enjoy, in respect of 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 by this Convention."

7.106 Article 5(1) of the Berne Convention (1971) provides for the enjoyment of two overlapping sets of rights that have been described as "the twin pillars on which protection under the Convention rests".[112] First, there are "the rights which their respective laws do now or may hereafter grant to their

[110] China's response to Question No. 46.
[111] Article 7 of the Copyright Law.
[112] Ricketson, S., *The Berne Convention for the Protection of Literary and Artistic Works: 1886-1986* (Queen Mary College, 1987) ("Ricketson"), p. 543, para. 5.66; and also Ricketson, S. and Ginsburg, J.C., *International Copyright and Neighbouring Rights – The Berne Convention and Beyond* (Oxford University Press, 2006), p. 310, para. 6.90.

nationals".[113] This is a national treatment obligation. The request for establishment of a panel included a claim under this part of Article 5(1) with respect to the Copyright Law in conjunction with certain other measures listed at paragraph 7.186 below, but this claim was not pursued.

7.107 Second, there are "the rights specially granted by this Convention". This term is not defined. However, Article 5(1) refers to rights that authors shall enjoy in respect of works. Articles 6*bis*, 8, 9, 11, 11*bis*, 11*ter*, 12, 14, 14*bis* and 14*ter* all provide for such rights.[114] Nevertheless, the incorporation of provisions of the Berne Convention (1971), including Article 5, is subject to the terms of Article 9.1 of the TRIPS Agreement (quoted at paragraph 7.104 above). Therefore, "the rights specially granted by this Convention" as used in Article 5(1) of that Convention, as incorporated by Article 9.1 of the TRIPS Agreement, do not include the rights referred to in Article 6*bis* of the Berne Convention (1971). This Report refers to these rights in that sense.

7.108 The United States' claim relates to these rights, as a group. It makes a separate claim with respect to Article 5(2) of the Berne Convention (1971), which the Panel does not consider in this sub-section of this Report.

7.109 China submits that it has implemented Article 5(1) of the Berne Convention (1971).[115] It offers no defence based on the terms of that Article but rather refers to Article 17 of the Berne Convention (1971), which the Panel addresses at paragraphs 7.120 to 7.137 below.

7.110 The Panel notes that the "rights specially granted" by the Berne Convention (1971), as incorporated by the TRIPS Agreement, include the exclusive right of making and of authorizing translation of works (in Article 8) and the exclusive right of authorizing reproduction of works (in Article 9), to name but the first two substantive rights.

7.111 As regards China's implementation of the "rights specially granted" by the Berne Convention (1971), the United States refers to the rights enumerated in Article 10 of the Copyright Law, as well as Articles 46 and 47 of the same Law. It does not challenge any of these particular Articles of the Copyright Law.[116]

7.112 China agrees that it grants to authors all the substantive protections of the Berne Convention, in addition to others, through Article 10 of the Copyright Law.[117] It submits that Article 10 of the Copyright Law fully complies with all Berne Convention requirements.[118]

7.113 The Panel notes that many of the rights listed in subparagraphs (5) to (17) of the first paragraph of Article 10 of the Copyright Law provide for rights specially granted by the Berne Convention (1971), that the second paragraph of Article 10 provides that copyright owners may authorize others' exercise of these economic rights, and that these rights appear to be exclusive (as reviewed at paragraphs 7.48 and 7.49 above). Therefore, the Panel finds that it is Article 10 of the Copyright Law that implements rights specially granted by the Berne Convention (1971).[119]

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[113] The Panel notes that this provision, as incorporated by Article 9.1 of the TRIPS Agreement, is distinct from Article 3.1 of that Agreement.

[114] This enumeration is without prejudice to other such rights.

[115] China submits that its obligations under Article 5 of the Berne Convention are implemented by Article 2(1) of the Copyright Law and Article 6 of the Copyright Implementing Regulations: see China's first written submission, paras 239-241.

[116] United States' first written submission, paras 64-66.

[117] China's rebuttal submission, para. 279.

[118] China's rebuttal submission, para. 303.

[119] This is without prejudice to the consistency of Article 10 of the Copyright Law with the Berne Convention (1971), as incorporated in the TRIPS Agreement.

7.114 The Panel recalls its finding at paragraph 7.50 above that Article 4(1) of the Copyright Law denies the protection of Article 10 to certain works, including those of WTO Member nationals, as the United States claims. The Panel observes that no party alleges that the denial of protection under Article 4(1) of the Copyright Law is permitted by any of the exceptions available with respect to certain specific rights under Articles 9(2), 10 or 10*bis* of the Berne Convention (1971). Nor does any party allege that the denial of protection under Article 4(1) of the Copyright Law is permitted by the exceptions provision in Article 13 of the TRIPS Agreement.

7.115 The Panel notes that both sets of rights under Article 5(1) of the Berne Convention (1971) relate to "works" for which authors are protected under that Convention. The categories of "works" in respect of which authors shall enjoy the rights specially granted by the Convention vary according to the terms of each Article granting the relevant right. For example, the rights of reproduction (Article 9) and of broadcasting (Article 11*bis*) are granted to authors of "literary and artistic works". That expression is defined, in a non-exhaustive manner, in Article 2(1) of the Berne Convention (1971).

7.116 The Panel recalls its finding at paragraph 7.103 above that the class of works denied protection under Article 4(1) of the Copyright Law includes works that have failed content review and, to the extent that they constitute copyright works, the deleted portions of works edited to satisfy content review. The Panel also recalls its findings at paragraphs 7.37 and 7.43 regarding the meaning of the word "works" as used in the Copyright Law, in particular in Article 4(1). No party has disputed that the "works" to which the Copyright Law, in particular Article 4(1), applies include at least some, if not all, the categories of works falling within the definition of "literary and artistic works" in Article 2(1) of the Berne Convention (1971). It is not disputed that the "works" to which Article 4(1) of China's Copyright Law applies are more extensive than those for which protection may be refused or limited under other provisions of Article 2, and under Article 2*bis*, of the Berne Convention (1971).

7.117 For the above reasons, the Panel finds that the Copyright Law is sufficiently clear on its face for the United States to have established that the Copyright Law, specifically Article 4(1), is inconsistent with Article 5(1) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement. This finding is subject to the Panel's consideration of Article 17 of the Berne Convention (1971), set out below.

7.118 The Panel recalls its finding at paragraph 7.103 above and confirms that this conclusion does not apply to works never submitted for content review in China, works awaiting the results of content review in China and the unedited versions of works for which an edited version has been approved for distribution in China. However, the Panel recognizes that the potential denial of copyright protection, in the absence of a determination by the content review authorities, implies uncertainty with respect to works that do not satisfy the content criteria prior to a determination under Article 4(1) of the Copyright Law, with the consequent impact on enjoyment of rights described above. Therefore, the Panel reiterates for the record the firm position of China taken in these proceedings that:

> "Copyright vests at the time that a work is created, and is not contingent on publication. Unpublished works are protected, foreign works not yet released in the Chinese market are protected, and works never released in the Chinese market are protected."[120]; and
>
> "Works that are unreviewed are decidedly not 'prohibited by law'."[121]

[120] China's rebuttal submission, para. 239.
[121] China's rebuttal submission, para. 255.

7.119 China has an international obligation to protect copyright in such works in accordance with Article 5(1) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement.

(v) Article 17 of the Berne Convention (1971) as incorporated by Article 9.1 of the TRIPS Agreement

7.120 China raises a defence under Article 17 of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement. China submits that all rights granted to authors under the Berne Convention (1971) are limited by Article 17 of that Convention, that Article 17 is not an exhaustive codification of the sovereign right to censor[122] and that Article 17 is drafted using very expansive language "that effectively denies WTO jurisdiction in this area".[123]

7.121 The United States responds that Article 17 of the Berne Convention (1971) does not authorize a content review system that denies all enforceable copyright protection to all works that have not been approved for publication or distribution.[124]

7.122 The Panel recalls that Article 9.1 of the TRIPS Agreement, quoted at paragraph 7.104 above, incorporates Article 17 of the Berne Convention (1971). Article 17 of the Berne Convention (1971) provides as follows:

> "The provisions of this Convention cannot in any way affect the right of the Government of each country of the Union to permit, to control, or to prohibit, by legislation or regulation, the circulation, presentation, or exhibition of any work or production in regard to which the competent authority may find it necessary to exercise that right."

7.123 "The provisions of this Convention" as referred to in Article 17 include Article 5(1) of the Berne Convention (1971).[125]

7.124 The parties agree that Article 17 confirms that governments have certain rights to control the exploitation of works. They do not agree as to whether those rights include a denial of all copyright protection with respect to particular works.

7.125 The Panel observes that the terms of Article 17 include certain broad phrases, notably "cannot in any way affect" and "any work or production". The use of the words "any work" (although it is slightly different in the French text) confirms that the subject-matter dealt with by Article 17 is the same as that addressed by the other substantive provisions of the Convention. However, these phrases are not used in isolation but refer to the right of a government to "permit, to control, or to prohibit … the circulation, presentation, or exhibition" of any work or production.

7.126 The right of a government "to control, or to prohibit" the "circulation, presentation, or exhibition" of any work or production clearly includes censorship for reasons of public order.[126] Both

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[122] China's first written submission, paras 258-259.

[123] China's rebuttal submission, paras 286-287.

[124] United States' rebuttal submission, para. 221; see also first written submission, fn. 129.

[125] It is not contested that China's laws prohibiting the publication and/or dissemination of works, including determinations made with respect to particular works, constitute "legislation or regulation" within the meaning of Article 17.

[126] Even the right of a government "to permit" the circulation, presentation, or exhibition of a work could be exercised for reasons of public order, such as the publication or broadcast by the police of a photograph of a wanted criminal: see Masouyé, C., *Guide to the Berne Convention*, (World Intellectual Property Organization, 1978) ("WIPO Guide to the Berne Convention"), para. 17.3. The Panel notes that, as stated in its

China and the United States referred to the records of the diplomatic conferences of the Berne Convention[127], opinions in the academic literature[128] and (in the case of China) to the WIPO Guide to the Berne Convention[129], that explained that Article 17 relates mainly to censorship and public order.

7.127 The Panel accepts that the three terms "circulation, presentation, or exhibition" are not necessarily an exhaustive list of the forms of exploitation of works covered by Article 17. However, a noticeable feature of these three terms is that they do not correspond to the terms used to define the substantive rights granted by the Berne Convention (1971), although they may be included within some of those rights[130] or they may refer to acts incidental to the exercise of some of those rights.[131] The word "exhibition" is not even used in the provisions setting out the substantive rights granted by the Convention.[132] Therefore, it cannot be inferred that Article 17 authorizes the denial of all copyright protection in any work.

7.128 The Panel appreciates that the position may be somewhat different under Article 10 of China's Copyright Law. Article 10 of the Copyright Law grants in subparagraph (6) "the right of distribution", in subparagraph (8) "the right of exhibition", and in subparagraph (10) "the right of presentation", which may correspond to the "circulation, presentation, or exhibition" of any work in Article 17 of the Berne Convention (1971). Article 10 of the Copyright Law also grants in subparagraph (1) "the right of publication", as well as the "right of distribution", both of which appear to be directly contrary to a prohibition of the publication and/or dissemination of a work due to illegal content, as referenced in Article 4(1) of the Copyright Law. To the extent that Article 10 of the Copyright Law might provide rights additional to, or broader than, those specially granted by the Berne Convention (1971), as incorporated in the TRIPS Agreement and, hence, that Article 4(1) of that Law might deny such rights, the Panel makes no finding.

7.129 The Panel does note that the *second* sentence of Article 4 of the Copyright Law (that is not the subject of the claim in this dispute) may already address China's public policy concerns with respect to some of these rights. The second sentence of Article 4 provides as follows:

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preface, this Guide is not intended to be an authentic interpretation of the provisions of the Berne Convention since such an interpretation is not within the competence of the International Bureau of WIPO.

[127] Main Committee I Report, p.1174 in *Records of the Stockholm Conference 1967*, quoted in Ricketson, see note 112 above, reproduced in Exhibit CHN-128; referred to in the United States' comments dated 7 July 2008 on the material provided to the Panel by the International Bureau of WIPO; referred to in China's first written submission, para. 262; and China's responses dated 21 July 2008 to the United States' comments on the material provided to the Panel by the International Bureau of WIPO.

[128] Ricketson, see note 112 above, *loc. cit.*; Patry, W.F., *Patry on Copyright* (Thomas West, 2007), §23:39 (see Exhibit CHN-129); Goldstein, P., *International Copyright: Principles, Law & Practice* (Oxford University Press, 2001), p. 27, reproduced in Exhibit CHN-126; referred to by China in its first written submission, fns. 264, 266-268 and in its rebuttal submission, paras 296-297.

[129] WIPO Guide to the Berne Convention, see note 126 above, at para. 17.2 in Exhibit CHN-125. Cited in China's first written submission, para. 260; rebuttal submission, para. 293; see also rebuttal submission para. 290 and response to Question No. 93.

[130] For example, the term "la représentation" is expressly included in the French text in Article 17 as well as in Articles 11(1)(i) (ii), 14(1)(ii) and 14*bis*(2)(b) in the phrase "la représentation et l'exécution", rendered as "performance" in the English text.

[131] For example, the word "la circulation" used in Article 17 of the French text is also used in provisions on possible limitations on the rights of translation and reproduction in Articles I(4), II(6), II(8), III(2)(b), III(4)(d), III(6) and IV(5) of the Appendix, rendered as "circulation" in the English text in Articles II(8) and III(4)(d) of the Appendix and "distributed" or "distribution" elsewhere.

[132] The word "exhibition" in Article 17 is also used in the definition of "published works" in Article 3(3) which provides *inter alia* that "the exhibition of a work of art … shall not constitute publication". Article 3(3) of the French text also uses the word "la représentation" of certain categories of works for the same purpose.

> "Copyright owners, in exercising their copyright, shall not violate the Constitution or laws or prejudice the public interests."

7.130 This provision does not deny copyright protection but, as China acknowledges, obliges copyright owners and authorized parties to respect the law in the exercise of their rights.[133] In contrast, the first sentence of Article 4 of the Copyright Law denies all copyright protection with respect to particular works.

7.131 China draws the Panel's attention to the WIPO Guide to the Berne Convention, which states as follows regarding Article 17 of the Berne Convention (1971):

> "It covers the right of governments to take the necessary steps to maintain public order. On this point, the sovereignty of member countries is not affected by the rights given by the Convention. Authors may exercise their rights only if that exercise does not conflict with public order. The former must give way to the latter. The Article therefore gives Union countries certain powers to control."[134]

7.132 The Panel agrees with this interpretation. A government's right to permit, to control, or to prohibit the circulation, presentation, or exhibition of a work may interfere with the exercise of certain rights with respect to a protected work by the copyright owner or a third party authorized by the copyright owner. However, there is no reason to suppose that censorship will eliminate those rights entirely with respect to a particular work.

7.133 With respect to those rights that are granted by the Berne Convention (1971), China is unable to explain why Article 4(1) of its Copyright Law provides for the complete denial of their protection with respect to particular works. Without prejudice to the range of rights that are granted by the Berne Convention (1971), it suffices to note that they are mostly exclusive rights of authorizing certain acts with respect to protected works. An exclusive right of authorizing necessarily entails the right to prevent others from carrying out the relevant acts with respect to protected works. China is unable to explain why censorship interferes with copyright owners' rights to prevent third parties from exploiting prohibited works.

7.134 China argues that such copyright protection is a "legal and material nullity", as economic rights are pre-empted by public prohibition. It also argues that copyright enforcement is meaningless in this context.[135] China asks the Panel to note that Article 4(1) of the Copyright Law is an exceedingly narrow provision of law with negligible implications in the marketplace and in terms of any nullification or impairment of benefits to Members.[136]

7.135 The Panel notes that copyright and government censorship address different rights and interests. Copyright protects private rights, as reflected in the fourth recital of the preamble to the TRIPS Agreement, whilst government censorship addresses public interests.

7.136 In response to a question from the Panel, China indicated that it "will always enforce copyrights against infringing edited versions, even when there is no edited version authorized by the author".[137] It did not explain how this was possible under its law. In response to another question from the Panel, China indicated that if an unprotected, prohibited work later becomes legal, it will protect copyright in the work going forward.[138] This might require a new court or NCAC

[133] China's response to Question No. 93.
[134] WIPO Guide to the Berne Convention, see note 126 above, at para. 17.2.
[135] China's first written submission, para. 280; rebuttal submission, para. 319.
[136] China's rebuttal submission, para. 273; and response to Question No. 44.
[137] China's response to Question No. 51.
[138] China's response to Question No. 53; rebuttal submission, paras 285 and 324.

determination but, in China's view, such a requirement does not constitute a formality under Article 5(2) of the Berne Convention (1971). In any event, the Panel recalls that Article 4(1) of the Copyright Law produces commercial uncertainty prior to a determination that a work is prohibited.[139]

7.137 China maintains that public censorship renders private enforcement unnecessary, that it enforces prohibitions on content seriously, and that this removes banned content from the public domain more securely than would be possible through copyright enforcement.[140] The Panel notes that these assertions, even if they were relevant, are not substantiated.

7.138 The Panel also recalls that if a measure infringes China's obligations under a covered agreement, in accordance with Article 3.8 of the DSU, this is considered prima facie to constitute a case of nullification or impairment. Even if the measure at issue has had no actual impact on foreign works to date, it has a *potential* impact on works of WTO Member nationals.

7.139 For the above reasons, the Panel confirms its finding at paragraph 7.117 above and concludes that, notwithstanding China's rights recognized in Article 17 of the Berne Convention (1971), the Copyright Law, specifically Article 4(1), is inconsistent with Article 5(1) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement.

(vi) Procedural issue

7.140 China emphasizes that the United States bears the burden of proof of this "as such" claim.[141] China alleges that the only evidence that the United States has offered is the text of Article 4(1) of the Copyright Law itself.[142]

7.141 The Panel notes that the United States provided more evidence than the text of the provision. In any case, the Panel recalls the following statement in the Appellate Body Report in *US – Corrosion-Resistant Steel Sunset Review*:

> "When a measure is challenged '*as such*', the starting point for an analysis must be the measure on its face. If the meaning and content of the measure are clear on its face, then the consistency of the measure *as such* can be assessed on that basis alone. If, however, the meaning or content of the measure is not evident on its face, further examination is required. …"[143]

7.142 In the present case, the Panel's review of the Copyright Law, in particular Article 4(1), on its face, shows that the measure is sufficiently clear to conclude that the United States has made a prima facie case of inconsistency. Article 5(1) of the Berne Convention (1971) provides that Members shall ensure that authors shall enjoy in respect of their works the rights specially granted by that Convention. Article 4(1) of the Copyright Law provides that certain works shall *not* receive the protection of that Law and that Law provides the rights specially granted by that Convention. Whilst the Panel has not accepted all the United States' allegations regarding the range of works that fall within Article 4(1), that does not undermine the basic finding of an inconsistency.

7.143 Therefore, the Panel confirms its conclusion at paragraph 7.139 above that the Copyright Law, specifically Article 4(1), is inconsistent with Article 5(1) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement.

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[139] As noted in the United States' rebuttal submission, paras 193-194.
[140] China's rebuttal submission, paras 273 and 318.
[141] China's rebuttal submission, paras 227-229.
[142] China's rebuttal submission, paras 266-268.
[143] Appellate Body Report in *US – Corrosion-Resistant Steel Sunset Review*, para. 168.

7.144 The Panel wishes to emphasize that the United States' claim did not challenge China's right to conduct content review.[144] The Panel's findings do not affect China's right to conduct content review.

4. Claim under Article 5(2) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement

(a) Main arguments of the parties

7.145 The United States claims that China subjects the enjoyment and exercise of copyright to the formality of successful conclusion of content review, inconsistently with Article 5(2) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement. Works that have not successfully completed content review under the Regulation on the Administration of Films, the Regulation on the Management of Publications, the Regulation on the Management of Audiovisual Products or the Regulations on the Management of Electronic Publications may not legally be published or distributed within China. The United States submits that, consequently, works in this unauthorized status fall within the scope of Article 4(1) of the Copyright Law, and thus they are not protected by that Law. The United States submits that 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.[145]

7.146 China responds that, under Article 2 of the Copyright Law and Article 6 of the Copyright Law Implementing Regulations, copyright protection vests upon creation of a work. While such works are pending review they enjoy the full panoply of copyright.[146] In response to the Panel's questions, China asked the Panel to note that under the Chinese system of copyright, "copyright" and "copyright protection" are distinguishable. To the extent that Article 4(1) of the Copyright Law would come into play with respect to a work, it would operate not to remove copyright, but to deny the particularized rights of private copyright enforcement. Article 4(1) of the Copyright Law thus does not operate in any manner that would violate Article 5(2) of the Berne Convention (1971) as it is not a condition precedent to copyright formation, nor does it destroy the residual copyright granted under Article 2 of the Copyright Law.[147]

7.147 The United States responds that China's distinction between copyright and copyright enforcement lacks any legal effect under Article 5(2) of the Berne Convention (1971). Article 5(2) applies both to the enjoyment and "exercise" of rights so that a content review that affects the exercise of rights would still impose a "formality" within the meaning of that provision.[148]

7.148 China further submits that the type of "formality" referred to in Article 5(2) of the Berne Convention (1971) is a condition precedent to the vesting of copyright. Given that Article 4(1) of the Copyright Law does not function as a condition precedent to copyright but rather as a condition subsequent, it is consistent with Article 5(2) of the Berne Convention (1971).[149]

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[144] United States' first written submission, para. 207; rebuttal submission, paras 221-222; acknowledged by China in its first written submission, para. 255.
[145] United States' first written submission, paras 220-221.
[146] China's first written submission, para. 235.
[147] China's response to Question No. 44.
[148] United States' rebuttal submission, paras 211-214.
[149] China's rebuttal submission, paras 261-264.

(b) Main arguments of third parties

7.149 Australia considers that Article 5(2) of the Berne Convention (1971) prohibits the enjoyment and exercise of rights in a protected work being subject to any prior legal or administrative procedure, such as registration of the work or approval of its content.[150]

7.150 Brazil does not consider that Article 5(2) of the Berne Convention (1971) requires that copyright arise "automatically" or "immediately" independently of what national legislation may dispose. The principle of automatic protection should be understood and limited to the fact that copyright protection is not conditional upon compliance with any formality, such as registration, deposit and the like.[151]

7.151 Canada considers that the term "formality" extends to national laws that make copyright protection for foreign works contingent on compliance with administrative obligations. China seems to have laid down in its national laws the administrative obligation for exporters or importers to obtain approval to publish and distribute the work in China such that, if not fulfilled, it will lead to the loss of copyright or copyright–related protection.[152]

7.152 The European Communities considers that if the enjoyment and exercise of copyright were contingent upon the dissemination approval by Chinese censorship authorities, this would be a "formality" inconsistent with Article 5(2) of the Berne Convention (1971). The European Communities does not comment upon the factual question of whether such a nexus exists under Chinese law but would be reticent to give specific instances of administrative enforcement too much weight in the assessment of an "as such" claim that appears to be based on the plain wording of the Chinese law.[153]

(c) Consideration by the Panel

7.153 The Panel notes that this claim concerns the denial of copyright protection under Article 4(1) of the Copyright Law. The Panel has already ruled on that issue in its consideration of the claim under Article 5(1) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement. Additional findings regarding this claim under Article 5(2) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement, would not contribute further to a positive solution to this dispute. Therefore, it is unnecessary for the Panel to rule on this claim.

5. Submission regarding Article 14 of the TRIPS Agreement

(a) Description of relevant provisions of the Copyright Law

7.154 Article 4 of the Copyright Law uses the term "works". Article 3 provides an inclusive definition of "works" for the purposes of the Copyright Law that does not expressly mention performances or phonograms (sound recordings). Meanwhile, Chapter IV of the Copyright Law sets out provisions regarding publication, performance, sound recording, video recording and broadcasting.

[150] Australia's third party written submission, para. 34.
[151] Brazil's third party oral statement, paras 3-11.
[152] Canada's third party written submission, para. 24.
[153] European Communities' third party oral statement paras 22-24.

(b) Main arguments of the parties

7.155 The United States submitted to the Panel that "*[d]epending 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"; that "*[i]t 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"; that "*it 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)"; and that "*if* Article 4 of the Copyright Law does deny protection" of certain related rights *then* in those cases performers and producers will not have certain rights required by Article 14.1 and 14.2 of the TRIPS Agreement.[154] (emphasis added in each instance)

7.156 The United States concludes "[t]herefore, 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.[155]

7.157 China responds that the United States has failed to properly state a justiciable claim on this issue. It argues that the US first written submission fails to allege that Article 4 of the Copyright Law actually violates Article 14 of the TRIPS Agreement, and that the United States fails to make a prima facie case that it does.[156]

(c) Main arguments of third parties

7.158 Canada submits that China's Copyright Law is inconsistent with Article 14.1 and 14.2 of TRIPS for the same reasons that it alleges the Law is inconsistent with Article 9.1 of the TRIPS Agreement.[157]

(d) Consideration by the Panel

7.159 The Panel has carefully reviewed the United States' request for establishment of a panel and its submissions. The Panel observes that at no point has the United States actually asserted that Article 4 of China's Copyright Law, in fact, applies to performances and phonograms or sound recordings and is, in fact, inconsistent with Article 14 of the TRIPS Agreement. Therefore, the Panel cannot discern a claim on which it may rule.

7.160 In any event, the Panel's findings with respect to Article 4(1) of the Copyright Law under the claim under Article 5(1) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement, would appear to dispose of the United States' underlying concern as regards Article 14 of the TRIPS Agreement.

6. Claim under Article 41.1 of the TRIPS Agreement

(a) Main arguments of the parties

7.161 The United States claims that the enforcement provisions of Chapter V of China's Copyright Law are unavailable with respect to works denied copyright protection under Article 4 of that Law.

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[154] United States' first written submission, paras 227, 228 and 230; see also rebuttal submission, fn. 201.

[155] United States' first written submission, para. 231.

[156] China's first written submission, paras 282 and 290.

[157] Canada's third party written submission, para. 25.

Therefore, China fails to ensure that enforcement procedures as specified in Part III of the TRIPS Agreement are available under its law, as required by Article 41.1 of the TRIPS Agreement.[158]

7.162 China responds that this claim fails in light of the fact that copyright is not in fact denied under the Copyright Law as alleged by the United States, for the reasons set out above in relation to Article 5(1) of the Berne Convention (1971).[159]

7.163 The United States notes China's defence – that Article 4(1) of the Copyright Law only denies "copyright protection" not "copyright" – and argues that, therefore, authors of the works for which copyright protection is denied do not benefit from the enforcement remedies specified in Chapter V of the Copyright Law.[160]

7.164 China submits that Article 41.1 of the TRIPS Agreement only requires enforcement procedures to be provided for rights covered by the TRIPS Agreement. If a right is not covered by the Agreement, then there is no obligation to enforce it. China also submits that the standard for enforcement procedures is that they permit "effective action". Given that China prohibits publication of the content at issue entirely, and rigorously enforces that prohibition, it has provided a procedure for "effective action" against any attempt to publish that content.[161] Lastly, China submits that its copyright enforcement procedures are "available", in the sense in which that term was interpreted in *US – Section 211 Appropriations Act*, because the author of any work may go to court and seek remedies, regardless of what judgement a court eventually reaches.[162]

(b) Main arguments of third parties

7.165 Canada submits that as a result of Article 4 of the Copyright Law, that Law does not apply to works that have been banned from publication or distribution in China and that, as a result, none of the required enforcement procedures is applicable. Therefore, Article 4 of the Copyright Law is also inconsistent with Article 41.1 of the TRIPS Agreement.[163]

(c) Consideration by the Panel

7.166 The Panel observes that Chapter V of the Copyright Law, titled "Legal Liabilities and Enforcement Measures", includes Articles 46 and 47. Article 46 provides for civil liability for 11 types of acts of infringement, many of which correspond to the rights set out in Article 10. Article 47 provides for civil and administrative liability and investigation of criminal liability for eight specific types of action, many of which correspond to rights set out in Article 10.

7.167 It is undisputed that Chapter V of the Copyright Law provides for enforcement procedures against acts of infringement of copyright, including orders to cease infringement, to pay compensation for damages and to confiscate the products of infringement, and provisional measures to order discontinuation of the infringement and to preserve property.

7.168 The Panel recalls its conclusion at paragraph 7.139 above that the Copyright Law, specifically the first sentence of Article 4, is inconsistent with China's obligations (with respect to the rights specially granted by the Berne Convention) under Article 5(1) of that Convention, as incorporated by Article 9.1 of the TRIPS Agreement. In the absence of protection of the rights specially granted by

[158] United States' first written submission, paras 232-237.
[159] China's first written submission, para. 283.
[160] United States' rebuttal submission, paras 216-218.
[161] China's rebuttal submission, paras 309-311.
[162] China's response to Question No. 94.
[163] Canada's third party written submission, para. 26.

the Berne Convention, there can be no enforcement procedures against any act of infringement of such rights with respect to the relevant works.

7.169 The Panel recalls that, in reaching that conclusion, it dismissed China's argument that Article 4(1) of the Copyright Law does not remove copyright but only "the particularized rights of private copyright enforcement".[164] However, the Panel will accept that argument *arguendo* for the purposes of the claim under Article 41.1 of the TRIPS Agreement.

7.170 Article 41.1 of the TRIPS Agreement provides as follows:

> "1. Members shall ensure that enforcement procedures as specified in this Part 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. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse."

7.171 This claim is made under the first sentence of Article 41.1. This raises certain interpretative issues. The first concerns the scope of application of this sentence, as expressed by the phrase "any act of infringement of intellectual property rights covered by this Agreement".

7.172 The term "intellectual property" is defined in Article 1.2 of the TRIPS Agreement as follows:

> "For the purposes of this Agreement, the term 'intellectual property' refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II."

7.173 The subject of Section 1 of Part II is "Copyright and Related Rights". Within Section 1, Article 9.1 incorporates Articles 1 through 21 of the Berne Convention (1971) and the Appendix thereto, with the exception of rights conferred under, or derived from, Article 6*bis*. Those provisions provide for the grant of various rights to authors in respect of their literary and artistic works. Any act falling within the scope of those rights carried out with respect to protected works without the authorization of the right holder or outside the scope of an applicable exception is *a priori* an act of infringement. Accordingly, an act of infringement of copyright in a literary or artistic work, as provided for in those provisions of the Berne Convention (1971) that are incorporated by Article 9.1 of the TRIPS Agreement, is an "act of infringement of intellectual property rights covered by this Agreement" within the meaning of the first sentence of Article 41.1 of the TRIPS Agreement.[165]

7.174 China acknowledges that a right holder of a work denied copyright protection under Article 4(1) of the Copyright Law is denied "the particularized rights of private copyright enforcement".[166] China has explained Article 4(1) in the following terms:

> "Its core principle is that the Copyright Law shall not enforce the protections of the copyright law for works the contents of which are illegal."[167]

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[164] China's response to Question No. 44, discussed at paras 7.61 to 7.71 above.

[165] The Panel's approach does not imply any view as to whether the phrase "any act of infringement of intellectual property rights covered by this Agreement" refers only to acts of infringement of the exclusive rights provided for in the TRIPS Agreement.

[166] See note 164 above.

[167] China's response to Question No. 45.

7.175 In the Panel's view, this is an acknowledgement that, despite the alleged existence of "copyright" under Article 2 of the Copyright Law, there are no enforcement procedures against any act of infringement of copyright in the relevant works, as required by Article 41.1 of the TRIPS Agreement.

7.176 China contested that the rights denied by Article 4(1) of the Copyright Law were "covered by [the TRIPS] Agreement". This defence stems from China's view that it is entitled, under Article 17 of the Berne Convention (1971), to deny the rights provided for in Article 5(1) of that Convention. The Panel recalls its findings at paragraphs 7.122 to 7.139 above in which it rejected that view. Accordingly, that view provides no defence to the claim that the rights denied by Article 4(1) of the Copyright Law include protection against "act[s] of infringement of intellectual property rights covered by [the TRIPS] Agreement", within the meaning of the first sentence of Article 41.1 of the TRIPS Agreement either.

7.177 The second issue concerns the nature of the obligation to ensure that "enforcement procedures as specified in this Part are available under their law so as to permit effective action". Article 41 is found in Part III of the TRIPS Agreement. Therefore, the reference to the enforcement procedures as specified in "this Part" is a reference to the enforcement procedures as specified in Part III of the TRIPS Agreement.

7.178 China asserts that the enforcement procedures in Chapter V of the Copyright Law are "available" in the sense that the authors of all works have "access" to enforcement process irrespective of whether they have adequate evidence or a valid right to enforce.[168] The Panel observes that this argument, in effect, asserts that a Member may make available the enforcement procedures as specified in Part III of the TRIPS Agreement simply by not preventing right holders from filing and pursuing claims in vain.

7.179 The Panel notes that, whilst right holders whose works are denied protection under Article 4(1) of the Copyright Law may or may not have access to process, the enforcement procedures "as specified in [Part III]" of the TRIPS Agreement are far more extensive. This is clear, among other things, from the text of Article 41.1 of the TRIPS Agreement which specifies that these procedures include "remedies". For example, Articles 44, 45, 46 and 50 of the TRIPS Agreement specify that the judicial authorities shall have the authority to make certain orders, such as injunctions, orders to pay damages, orders for the disposal or destruction of infringing goods, and provisional measures. Where copyright protection is denied to a work under Article 4(1) of the Copyright Law, the judicial authorities have no such authority under Chapter V of the Copyright Law. It is not asserted that they are available in China under any other law.[169] Therefore, this set of enforcement procedures, including remedies, is not available to the right holders as required by Article 41.1 of the TRIPS Agreement.

7.180 China asserts that an entire ban on publication of a work is a form of "effective action" and that "it is in a sense an alternative form of enforcement against infringement".[170] The Panel notes that the range of exclusive rights recognized under the Berne Convention (1971) that may be infringed is broader than simply a right to authorize publication. In any event, the effectiveness of a government ban on publication is beside the point. Part III of the TRIPS Agreement includes a multilaterally-agreed minimum set of enforcement procedures that Members must make available to right holders against any infringement of intellectual property rights covered by the TRIPS Agreement. Where a Member chooses to make available other procedures – for enforcement of intellectual property rights

[168] China's response to Question No. 94.

[169] China's response to Question No. 46 refers only to Articles 46 and 47 of the Copyright Law and Articles 217 and 218 of the Criminal Law.

[170] China's rebuttal submission, para. 311; responses to Questions Nos. 52 and 94.

or for enforcement of other policies with respect to certain subject matter – that policy choice does not diminish the Member's obligation under Article 41.1 of the TRIPS Agreement to ensure that enforcement procedures as specified in Part III are available.[171]

7.181 For the above reasons, the Panel concludes that the Copyright Law, specifically the first sentence of Article 4, is inconsistent with China's obligations under Article 41.1 of the TRIPS Agreement.

7. Claims under Article 61 of the TRIPS Agreement

(a) Main arguments of the parties

7.182 The United States claims that the criminal procedures referred to in Article 47 of China's Copyright Law are unavailable with respect to works denied copyright protection under Article 4 of that Law. Therefore, 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, as required by the first and second sentences of Article 61 of the TRIPS Agreement.[172]

7.183 China responds that this claim fails in light of the fact that copyright is not in fact denied under the Copyright Law as alleged by the United States.[173]

(b) Main arguments of third parties

7.184 Canada submits that Article 47 of China's Copyright Law provides for criminal procedures and penalties to be applied in certain case of copyright piracy. However, by operation of Article 4 of that Law, such criminal procedures and penalties do not apply to banned foreign works.[174]

(c) Consideration by the Panel

7.185 The Panel notes that these claims concern the denial of copyright protection under Article 4(1) of the Copyright Law and its impact on enforcement. The Panel has already ruled on those issues in its consideration of the claims under Article 5(1) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement, and under Article 41.1 of the TRIPS Agreement, respectively. Additional findings regarding these claims under Article 61 of the TRIPS Agreement would not contribute further to a positive solution to this dispute. Therefore, it is unnecessary for the Panel to rule on these claims.

8. National treatment claims

(a) List of relevant measures at issue

7.186 Section III of the request for establishment of a panel lists the following other measures: the Criminal Law; the Regulations on the Administration of Publishing Industry; the Regulations on the Administration of Broadcasting; the Regulations on the Administration of Audiovisual Products; the Regulations on the Administration of Films; and the Regulations on the Administration of Telecommunication; the Regulations on Administration of the Films Industry; the Administrative Regulations on Audiovisual Products; the Administrative Regulation on Publishing; the Administrative Regulations on Electronic Publications; the Measures for the Administration of Import of Audio and Video Products; the Procedures for Examination and Approval for Publishing

[171] China makes no reference to Article 41.5 of the TRIPS Agreement in relation to this claim.
[172] United States' first written submission, paras 232-233 and 238.
[173] China's first written submission, para. 283.
[174] Canada's third party written submission, para. 27.

Finished Electronic Publication Items Licensed by a Foreign Copyright Owner; the Procedures for Examination and Approval of Importation of Finished Electronic Publication Items by Electronic Publication Importation Entities; the Procedures for Recording of Imported Publications; the Interim Regulations on Internet Culture Administration; and the Several Opinions on the Development and Regulation of Network Music; as well as any amendments, related measures, or implementing measures.[175]

(b) Arguments of the parties

7.187 The United States claimed in its request for establishment of a panel that these measures appear to establish different pre-distribution and pre-authorization review processes for Chinese nationals' works, performances (or their fixations) and sound recordings than for foreign nationals' works, performances (or their fixations) and sound recordings. It claimed that these measures, taken together with Article 4 of the Copyright Law, appeared to result in earlier and otherwise more favourable protection and enforcement of copyright rights for Chinese authors' works than for foreign authors' works, inconsistently with China's obligations under Article 3.1 of the TRIPS Agreement and under Article 9.1 of the TRIPS Agreement with respect "at least" to Articles 5(1) and 5(2) of the Berne Convention (1971).[176] However, the United States has made no submission to the Panel with respect to these claims. The United States referred to four of the Regulations listed above in connection with its claim under Article 5(2) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement.

7.188 China submits that the United States has neglected to assert any claim whatsoever and thus has seemingly abandoned the national treatment arguments.[177]

7.189 The United States confirms that it is not pursuing a claim under Article 3.1 of the TRIPS Agreement before this Panel.[178]

(c) Consideration by the Panel

7.190 The Panel takes note that the United States has not pursued any national treatment claims in this dispute.

9. Conclusions with respect to the Copyright Law

7.191 The Panel recalls its conclusions at paragraphs 7.139 and 7.181 above that the Copyright Law, specifically the first sentence of Article 4, is inconsistent with China's obligations under:

(a) Article 5(1) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement; and

(b) Article 41.1 of the TRIPS Agreement.

7.192 The Panel exercises judicial economy with respect to the claim under Article 5(2) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement, and the claims under Article 61 of the TRIPS Agreement (with respect to the Copyright Law).

[175] WT/DS362/7, attached as Annex D-1 to this report.
[176] *Ibid.*
[177] China's first written submission, para. 291.
[178] United States' rebuttal submission, fn. 201.

B. CUSTOMS MEASURES

1. Description of the measures at issue

7.193 This Section of the Panel's findings concerns three of China's Customs measures. The Regulations on Customs Protection of Intellectual Property Rights ("**Customs IPR Regulations**") were enacted by the Standing Committee of the State Council in November 2003 and entered into force in March 2004. The Regulations were formulated in accordance with the Customs Law and provide a procedure for Customs to take protective measures against goods suspected of infringing trademark, copyright and related rights and patent rights upon importation or exportation. Article 27 provides for the confiscation of goods determined to have infringed an intellectual property right and, in the third paragraph, sets out different options for the disposal or destruction of such goods. The parties agreed to translate the relevant text as follows:

> "Where the confiscated goods which infringe on intellectual property rights can be used for the social public welfare undertakings, Customs shall hand such goods over to relevant public welfare bodies for the use in social public welfare undertakings. Where the holder of the intellectual property rights intends to buy them, Customs can assign them to the holder of the intellectual property rights with compensation. Where the confiscated goods infringing on intellectual property rights cannot be used for social public welfare undertakings and the holder of the intellectual property rights has no intention to buy them, Customs can, after eradicating the infringing features, auction them off according to law. Where the infringing features are impossible to eradicate, Customs shall destroy the goods."[179]

7.194 The Measures for the Implementation of the Customs IPR Regulations ("**Implementing Measures**") were adopted by the Standing Committee of the General Administration of Customs in April 2004 and entered into force in July 2004. The Implementing Measures were formulated in accordance with the Customs Law and other laws and administrative regulations for the purpose of effectively implementing the Customs IPR Regulations.[180] The parties agreed to translate Article 30 of the Implementing Measures as follows:

> "Article 30 Customs shall dispose of infringing goods it has confiscated according to the following provisions:
>
> (1). Where the goods concerned may be used directly for the social public welfare or the holder of the intellectual property rights wishes to purchase the goods, Customs shall[181] hand the goods over to the relevant social welfare bodies[182] for the use in social public welfare[183] or assign them to the holder of the intellectual property rights with compensation;
>
> (2). Where the goods concerned cannot be disposed of in accordance with Item (1) but the infringing features can be eradicated, they shall[184] be auctioned off according to law after eradicating the infringing features. The proceeds arising from the auction shall be turned into the state treasury; and

[179] Mutually agreed translation no. 6.
[180] Implementing Measures, Article 1.
[181] The original version does not say "shall" in item (1). See paragraph 7.339 below.
[182] In the original versions, the identical word has been translated as "social welfare bodies" in the Implementing Measures and as "public welfare bodies" in the Customs IPR Regulations.
[183] In the original versions, the identical word has been translated as "social public welfare" in the Implementing Measures and as "social public welfare undertakings" in the Customs IPR Regulations.
[184] The original version does not say "shall" in item (2). See paragraph 7.339 below.

> (3). Where the goods concerned cannot be disposed of in accordance with Items (1) and (2), they shall be destroyed.
>
> When Customs destroys the infringing goods, the holder of the intellectual property rights shall provide necessary assistance. In cases where relevant social welfare bodies use the infringing goods confiscated by Customs for the social public welfare, or the holder of the intellectual property rights assists Customs in destroying the infringing goods, Customs shall carry out necessary supervision."[185]

7.195 **Public Notice No. 16/2007** was notified by the General Administration of Customs in April 2007. Public Notice No. 16/2007 was notified in order *inter alia* to regulate the auction of infringing goods by Customs in accordance with Article 27 of the Customs IPR Regulations. The parties agreed to translate the operative paragraphs as follows:

> "1. Where the confiscated infringing goods are auctioned by Customs, Customs shall completely eradicate all infringing features on the goods and the packaging thereof strictly pursuant to Article 27 of the Regulations, including eradicating the features infringing trademarks, copyright, patent and other intellectual property rights. Any goods the infringing features of which cannot be completely eradicated shall be destroyed and shall not be auctioned.
>
> "2. Customs shall solicit comments from the holder of the intellectual property rights before the infringing goods are auctioned."[186]

7.196 It is not disputed that these three measures are all binding upon the General Administration of Customs.[187] These three measures are referred to collectively in this Report as "the Customs measures".

2. Claim under Article 59 of the TRIPS Agreement

(a) Main arguments of the parties

7.197 The United States claims that the competent Chinese authorities lack the scope of authority to order the destruction or disposal of infringing goods required by Article 59 of the TRIPS Agreement. The measures at issue create a "compulsory scheme" so that the Chinese customs authorities cannot exercise their discretion to destroy the goods and must give priority to disposal options that allow infringing goods to enter the channels of commerce or otherwise cause harm to the right holder.[188] *Donation to social welfare bodies* can be harmful to a right holder and nothing appears to prevent such bodies from selling the infringing goods; *sale to the right holder* harms the right holder in the amount that the right holder pays for the infringing goods; and *auction* does not constitute disposal outside the channels of commerce and, absent his consent, may harm the right holder. Where any of these three options is available, the authorities are not authorized to order *destruction* of the infringing goods.[189]

7.198 China responds that its Customs authorities possess the authority to order both disposal and destruction of infringing goods in accordance with Article 59 of the TRIPS Agreement. *Donation to social welfare bodies* and *sale to the right holder* constitute disposal outside the channels of

[185] Mutually agreed translation no. 7.
[186] Mutually agreed translation no. 8.
[187] United States' first written submission, paras 59-61 and responses to Questions Nos. 26 and 75; China's response to Question No. 26.
[188] United States' first written submission, paras 56-57 and 172.
[189] United States' first written submission, paras 179-192.

commerce in such a way as to avoid harm to the right holder.[190] Article 59 must be read in conjunction with Article 1.1 of the TRIPS Agreement.[191] Chinese law sets forth criteria that reflect an official preference for the use of disposition methods besides destruction but Customs has the discretion to determine whether the criteria are met and therefore which disposition method is appropriate. China Customs chose to destroy 58 per cent of the total value of infringing goods between 2005 and 2007 which proves that the putative hierarchy of disposition options does not hinder Customs' ability to order *destruction* of infringing goods.[192] The obligation in Article 59 to grant "authority" to order destruction does not mean that Members must make a grant of unfettered and unguided discretion and that domestic agencies must have the absolute power to order destruction of infringing goods in any circumstance whatsoever.[193]

7.199 The United States responds that Article 59 requires full authority to be granted to dispose of or destroy confiscated infringing goods in accordance with the principles of Article 46. The authorities should have the *power* to choose among any legitimate options for dealing with these goods from the outset when the goods are found to be infringing, and thereafter until the goods are finally dealt with.[194] Article 1.1 of the TRIPS Agreement only offers flexibility in how a Member implements TRIPS obligations and does not exempt a Member from full compliance with TRIPS obligations.[195] Statistics provide no response to this claim because the United States is not arguing that the TRIPS Agreement obligations *require* China to destroy or dispose of all infringing goods in accordance with the principles in the first sentence of Article 46. The pertinent issue is what decisions China Customs is permitted by law to make in particular circumstances.[196]

7.200 China responds that it does not have an obligation under the TRIPS Agreement to ensure that every infringing good disposed of outside the channels of commerce avoids harm to the right-holder. Rather, Customs must have the *authority* to dispose of seized goods outside the channels of commerce in such a way as to avoid harm to the right-holder.[197] The determination of what constitutes an appropriate grant of authority under the TRIPS Agreement is highly circumstantial. China Customs' authority is appropriate in light of the level of discretion that it enjoys in making decisions, its autonomy, that the rules constraining it serve legitimate government interests and the deterrence of infringement and the avoidance of harm to the right-holder.[198]

7.201 The United States claims that the measures at issue are inconsistent with the principle in the fourth sentence of Article 46 because nothing suggests that the auctioning of goods after removal of the infringing mark is permitted only in "exceptional cases".[199]

7.202 China responds that, even if the fourth sentence of Article 46 set forth an independent obligation on Customs authorities, which it does not admit, China Customs would fulfil the obligation because they remove "all" infringing features, not just the trademarks, and solicit comments from the right holders.[200] China argues that the use of the word "release" envisions a return to the infringer. Customs uses a reserve price at auction to ensure that infringers do not have the opportunity to purchase the seized goods at an unreasonably low cost and reaffix counterfeit marks. In China's view, this complies with the purpose of the fourth sentence of Article 46, which is to ensure that in the

[190] China's first written submission, para. 182.
[191] China's first written submission, para. 185.
[192] China's first written submission, para. 194.
[193] China's first written submission, para. 196.
[194] United States' rebuttal submission, para. 128; response to Question No. 38.
[195] United States' rebuttal submission, para. 129.
[196] United States' rebuttal submission, para. 131.
[197] China's rebuttal submission, para. 160.
[198] China's rebuttal submission, paras 181-188.
[199] United States' first written submission, para. 190; rebuttal submission, para. 169.
[200] China's first written submission, paras 222-225.

course of dealing with seized goods authorities deprive infringers of economic benefits from the goods.[201] China also argues that the word "sufficient" indicates that release of goods into the channels of commerce is permitted by the fourth sentence of Article 46, and not only in exceptional cases. It also raises the possibility that China's use of auction is "exceptional" as it constitutes a mere 2 per cent of disposition outcomes.[202]

(b) Main arguments of third parties

7.203 Argentina considers that customs authorities can freely select from a number of alternatives the most viable method for the situation at issue. Officials could discretionally choose either to destroy confiscated merchandise or to dispose of it outside the channels of commerce in a manner harmless to the right holder's interests. Donation to social welfare organizations is a viable alternative but avoidance of harm to the right holder would need to be determined by customs authorities on a case-by-case basis.[203]

7.204 Australia considers that "the channels of commerce" comprise any activity relating to the supply or transfer of goods in pursuit of financial reward within a Member's territory. Article 59 requires, in effect, that competent authorities be able to order that infringing goods be destroyed or be disposed of in such a manner that the goods do not enter the channels of commerce within that Member's territory. Such disposal methods could include recycling or donation to a charity within a Member's territory, provided the infringing goods are not likely to enter the channels of commerce as a result.[204]

7.205 Brazil considers that the fourth sentence of Article 46 suggests that the release of infringing goods into the channels of commerce is admitted by the TRIPS Agreement. The obligation is to grant the power to dispose of infringing goods outside the channels of commerce or order their destruction. The authority to employ one disposal option or another does not need to be unconditional but it should not be simply theoretical. Article 46 does not require Members to ensure that absolutely no harm ever happens to the right holder following disposal of infringing goods, rather, the obligation is to *avoid*, which is not an obligation of result but one of means.[205]

7.206 Brazil considers that the limitation set forth in the fourth sentence of Article 46 applies to disposal of infringing goods into the channels of commerce. An *a contrario* reading indicates that goods other than counterfeit trademark goods may be released into the channels of commerce, and counterfeit trademark goods may be released into the channels of commerce when additional measures are adopted besides the simple removal of the trademark.[206]

7.207 Canada submits that Article 59 of the TRIPS Agreement requires Members to give their competent authorities the powers set out in Article 46 *ab initio*, that is, as soon as it is has been established that the goods infringe intellectual property rights. China's competent authority acquires the requisite powers only after other disposal options have been explored or, in some cases, not at all. Obvious ways to dispose of goods outside the channels of commerce without harming the right holder are to give them to the right holder or to recycle them. Donation to social welfare bodies precludes destruction and the social welfare bodies may sell the infringing goods. The right holder has a choice of purchasing the infringing goods, thereby suffering financial harm, or running the risk that the goods

[201] China's first oral statement, paras 72-77; rebuttal submission, paras 210-215.
[202] China's rebuttal submission, paras 206-209 and fn. 161.
[203] Argentina's third party written submission, paras 50 and 70.
[204] Australia's third party written submission, paras 26-32.
[205] Brazil's third party written submission, paras 43-52.
[206] Brazil's third party written submission, paras 45 and 52.

will be auctioned. The competent authorities only then acquire the power to destroy the goods when the infringing feature can not easily be removed or nobody has purchased them at auction.[207]

7.208 Canada submits that China's measures are inconsistent with Article 59 for an additional reason. The obligation to dispose of infringing goods in accordance with the principles of Article 46 includes complying with the prohibition on releasing counterfeit goods after simply removing the infringing features. China's customs authority does not auction counterfeit trademark goods from which it has removed infringing features "in exceptional cases" only.[208]

7.209 The European Communities agrees with China that Articles 59 and 46 of the TRIPS Agreement do not impose an obligation to dispose of infringing goods only through the two options set out in Article 46, first sentence. The terms of both Article 59 and Article 46 require that "authorities shall have *the authority* to order" remedies, not that they *must use* these remedies under specified circumstances. However, if customs authorities choose a different way of disposing of infringing goods, for example by auction, the principle of Article 46, fourth sentence applies. With respect to disposal outside the channels of commerce, this must be in such a manner as to avoid *any* harm caused to the right holder.[209] This means that even a slight degree of harm is too much. A core interpretation question is the extent to which the obligation in Article 59 permits Members to subject the "authority" to order disposal or destruction to conditions.[210]

7.210 The European Communities disagrees with China that the fourth sentence of Article 46 is not incorporated into Article 59. Article 59 refers to "the principles set out in Article 46" in their entirety. The second sentence of Article 59 is not a *lex specialis* derogating from the general provision in the fourth sentence of Article 46 as the two provisions address different ways of dealing with counterfeit trademark goods that are all relevant for customs authorities.[211]

7.211 Chinese Taipei submits that a Member should be considered to have met the minimum standard of Article 46 of the TRIPS Agreement if its judicial authority is provided with power and authority that includes both destruction and disposal according to the conditions set out in that Article. A Member is free to determine for itself the circumstances under which infringing goods are to be disposed of or destroyed and the sequence or priority between the two options.[212]

(c) Consideration by the Panel

(i) Introduction

7.212 The Panel notes that this claim challenges the Customs measures "as such". The parties disagree on the proper interpretation of the measures at issue. The Panel is therefore obliged, in accordance with its mandate, to make an objective assessment of the meaning of the relevant provisions of those measures. The Panel recalls its observations at paragraph 7.28 above and confirms that it examines the Customs measures solely for the purpose of determining their conformity with China's obligations under the TRIPS Agreement.

(ii) Border measures

7.213 This claim is made under Article 59 of the TRIPS Agreement, which provides as follows:

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[207] Canada's third party written submission, paras 14-19; third party oral statement, paras 10-14.
[208] Canada's third party written submission, paras 20-21.
[209] European Communities' third party written submission, paras 16-20.
[210] European Communities' third party oral statement, paras 15-20.
[211] European Communities' third party written submission, paras 17 and 19.
[212] Chinese Taipei's third party written submission, paras 22-29; oral statement, paras 13-17.

"*Remedies*

> Without prejudice to 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. In regard to counterfeit trademark goods, the authorities shall not allow the re-exportation of the infringing goods in an unaltered state or subject them to a different customs procedure, other than in exceptional circumstances."

7.214 This Article contains a number of key terms, such as "the right holder", "the defendant", "competent authorities" and "infringing goods" which are not defined in the Article itself but can only be understood by reading the whole Article in context.

7.215 Article 59 is found in Section 4 of Part III of the TRIPS Agreement on Special Requirements Related to Border Measures. Section 4 sets out procedures for the suspension at the border by the customs authorities of the release into free circulation of goods. Article 59 sets out the step in these procedures that applies after goods have been found to be infringing. As such, Article 59 forms part of a set of procedures and its key terms must be understood in that context.

7.216 This reading is confirmed by the opening provision of Section 4. The first sentence of Article 51 provides as follows:

> "Members shall, in conformity with the provisions set out below, adopt procedures to enable a right holder, who has valid grounds for suspecting that the importation of counterfeit trademark or pirated copyright goods may take place, to lodge an application in writing with competent authorities, administrative or judicial, for the suspension by the customs authorities of the release into free circulation of such goods." (footnotes omitted)

7.217 This sentence refers to "procedures to enable a right holder … to lodge an application … for the suspension by the customs authorities of the release into free circulation" of certain goods. These procedures must conform with "the provisions set out below". The "provisions set out below" are the provisions of Section 4, which include Article 59.

7.218 The description of the procedure as one for an "application" for "suspension" does not appear to exclude related aspects of the procedure in the provisions set out below, such as the provisions on *ex officio* action in Article 58 or the remedies as a result of application and/or suspension set out in Article 59. Rather, the procedures in Section 4 form a set that must be read together. This is reflected in the second sentence of Article 51 (with respect to other goods, set out below) that refers to "such an application" (i.e. an application such as that referred to in the first sentence) being subject to "the requirements of this Section". This tends to confirm that the "provisions set out below" Article 51 include the whole of Section 4.

7.219 The need to read provisions in the context of the relevant Section is a feature of Sections 2, 3 and 4 of Part III of the TRIPS Agreement. Whilst some provisions refer expressly to prior provisions, such as Articles 52, 54 and 56, many others do not, such as Articles 53.1, 55, 57 and 59, but rather rely on context for clarity. This confirms that the provisions of Section 4 must be read as a coherent set of procedures and not in isolation.

7.220 Therefore, the Panel will refer to other provisions of Section 4, in particular to Article 51, in its interpretation of certain terms used in Article 59.

(iii) "infringing goods"

7.221 The first sentence of Article 59 applies to "infringing goods". The ordinary meaning of these words is not limited to goods that infringe any specific rights. However, read in context, there are certain limitations. The first sentence of Article 51 provides for the relevant procedures to apply, as a minimum, to "the importation" of "counterfeit trademark or pirated copyright goods". This applies to Article 59 for the reasons set out at paragraphs 7.213 to 7.220 above.

7.222 Article 51 expressly allows Members to provide for procedures at the border for other infringing goods as well. The second and third sentences of Article 51 provide as follows:

> "Members may enable such an application to be made in respect of goods which involve other infringements of intellectual property rights, provided that the requirements of this Section are met. Members may also provide for corresponding procedures concerning the suspension by the customs authorities of the release of infringing goods destined for exportation from their territories."

7.223 Both these sentences use the word "may", indicating that they are optional provisions. The second sentence provides for an optional extension to "other infringements of intellectual property rights". This is a reference both to goods that infringe trademarks and copyright without constituting counterfeit trademark goods or pirated copyright goods, as well as to goods that infringe other categories of intellectual property rights, such as patents. The second sentence includes an express condition that applies where Members provide border measures for other infringements of intellectual property rights, namely "provided that the requirements of this Section are met".[213] The requirements of that "Section" include those found in Article 59. Therefore, to the extent that a Member provides for such an application to be made in respect of goods involving other infringements of intellectual property rights, such as patents, the obligation in Article 59 applies.

7.224 The third sentence of Article 51 provides for an optional extension to "infringing goods destined for exportation" from a Member's territory. The terms of the third sentence do not attach any express condition to this option. An option with respect to "corresponding procedures" is not, on its face, an obligation that procedures shall correspond. The omission of any express condition in the third sentence stands in contrast to the proviso in the second sentence, which also serves the purpose of providing for an optional extension of the border measures. Whilst it would not have been appropriate to include an identical condition to that found in the second sentence, as the requirements of Section 4 refer to importation, the third sentence could nevertheless have included an express condition that the procedures with respect to infringing goods destined for exportation shall correspond to those set out in the Section, or shall comply with the principles thereof.[214] However, it does not. Read in context, this omission is not ambiguous. Therefore, the Panel finds that there is no obligation to apply the requirements of Article 59 to goods destined for exportation.[215]

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[213] There are some express differences between the procedures applicable to different goods: Article 53.2 of the TRIPS Agreement only applies to goods involving industrial designs, patents, layout-designs or undisclosed information; the second sentence of Article 59 only applies to counterfeit trademark goods.

[214] For example, Articles 49 and 50.8 of the TRIPS Agreement provide for optional procedures, subject to a contingent obligation that they "shall conform to principles equivalent in substance to those set forth" in the relevant Sections. In contrast, footnote 13 to the TRIPS Agreement sets out an option but contains no contingent obligation. However, footnote 13 limits the scope of the obligation in the first sentence of Article 51 rather than providing for an optional extension.

[215] The text of Article 59 itself provides a confirmation of this point. The second sentence refers to the "*re*-exportation" of the infringing goods not "exportation", which implies that the counterfeit trademark goods are only presented for importation.

7.225 Turning to the measures at issue, the Panel notes that the Customs IPR Regulations, in Article 2, provide that "Customs protection of intellectual property rights in these Regulations means the protection provided by the Customs for the exclusive rights to use a *trademark, copyrights and their related rights, and patent rights* (hereinafter referred to as intellectual property rights) …" (emphasis added). The same is true of the Implementing Measures and Public Notice No. 16/2007, that both implement the Customs IPR Regulations.[216]

7.226 It is apparent that the intellectual property right infringements covered by the Customs measures include not only counterfeit trademark goods and pirated copyright goods, but certain other infringements of intellectual property rights, namely other trademark-infringing goods, other copyright-infringing goods, and patent-infringing goods. For the reasons set out in paragraph 7.223 above, the Panel finds that Article 59 applies to the Customs measures as those measures apply to all these infringements of intellectual property rights.[217]

7.227 The Panel notes that the Customs IPR Regulations, in Article 2, also provide that "Customs protection of intellectual property rights in these Regulations means the protection provided by the Customs … related to *imports or exports* …" (emphasis added). The same is true of the Implementing Measures and Public Notice No. 16/2007, that both implement the Customs IPR Regulations.[218]

7.228 In this respect, China's border measures provide a level of protection *higher* than the minimum standard required by Section 4 of Part III of the TRIPS Agreement. The practical effect of this is that, according to uncontested statistics prepared by China Customs, 99.85 per cent by value of infringing goods disposed of or destroyed under the measures at issue in the years 2005 to 2007 were destined for exportation.[219]

7.229 The United States' claim refers to "infringing goods"[220] and specifically notes that the measures at issue apply to imports and exports.[221] However, in response to a question from the Panel concerning its claim and the relevance of Article 51, the United States advised that it "takes no position" with regard to whether the first sentence of Article 59 also governs border authorities' actions with respect to goods destined for exportation.[222]

7.230 In light of the United States' response, and given the complainant's responsibility to assert and prove its claim, China submits that its measures are not subject to this claim with respect to goods destined for exportation.[223]

7.231 The Panel notes that the United States has not withdrawn its claim with respect to any aspect of the Customs measures. For the reasons set out in paragraph 7.224 above, the Panel concludes that

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[216] See paragraphs 7.194 and 7.195 above.

[217] This finding only applies with regard to imports, in accordance with paragraph 7.231 below.

[218] These measures implement the Customs IPR Regulations. Further, in the Implementing Measures, Article 4 refers to the intellectual property rights of imports and exports, Chapter III on "Detention upon application" begins with Article 14 that refers to goods to be imported or exported imminently, Chapter IV on "Investigation by authority" begins with Article 20 that refers to discovery of any imports or exports by Customs and is followed by Chapter V on disposal of goods and expenses which begins with Article 30 that refers to infringing goods that Customs has confiscated. Public Notice No. 16/2007 was notified to regulate the auction of goods in accordance with Article 27 of the Customs IPR Regulations that applies to both imports and exports.

[219] See "Statistics on Disposition of Infringing Goods by China Customs In Years 2005 through 2007 prepared by China Customs" in Exhibits CHN-166 and CHN-167.

[220] United States' first written submission, para. 171, 2nd sentence, refers to imports "in particular".

[221] United States' first written submission, para. 58, fn. 45; para. 179, fn. 117.

[222] United States' response to Question No. 28.

[223] China's second oral statement, paras 46-47.

Article 59 of the TRIPS Agreement is not applicable to the Customs measures insofar as those measures apply to goods destined for exportation.

7.232 The Panel will continue to assess the claim insofar as it concerns goods destined for importation. Imports represented 0.15 per cent by value of the goods disposed of or destroyed under the measures at issue in the years 2005 to 2007. During that period, all confiscated infringing imports were either donated to the Red Cross Society of China (0.12%) or destroyed (0.02%).[224] The volume of infringing imports that was sold to the right holder, or auctioned, was zero.

7.233 Nevertheless, the Customs measures on their face apply in the same way to both exports and imports. China confirms that its evidence, including of specific shipments of exports, is indicative of how the Customs measures operate with respect to both exports and imports.[225] The statistics comprising both exports and imports are a much larger, and therefore more reliable, sample. Therefore, the Panel considers that it may refer to evidence as it relates to both exports and imports in its assessment of this claim as it relates only to imports.

(iv) "shall have the authority"

7.234 The obligation in the first sentence of Article 59 is that competent authorities "shall have the authority" to order certain types of remedies with respect to infringing goods. It is clear from the context within Section 4 that the obligations in Article 59 apply where customs authorities have suspended the release into free circulation of goods suspected of infringing intellectual property rights. The fact that Article 59 applies to "infringing goods" indicates that the obligations in this Article are triggered when competent authorities find that the goods subject to the suspension are infringing. The fact that Article 59 addresses the authority to order remedies implies that the obligations continue until the time that a remedy has been ordered. The text of the Article does not indicate any other limitation on the temporal scope of the obligations. Therefore, the obligation that competent authorities "shall have the authority" to make certain orders applies from the time that competent authorities find that goods subject to suspension at the border are infringing, right up until the time that a remedy is ordered.

7.235 The United States confirms that it does not claim that the obligation that competent authorities "shall have the authority" to order certain remedies requires Members to make those orders. Rather, the United States claims that "[t]he pertinent issue is what decisions China Customs is permitted by law to make in particular circumstances".[226]

7.236 The Panel notes that the word "authority" can be defined as "power or right to enforce obedience; moral or legal supremacy; right to command or give a final decision."[227] The obligation is to "have" authority not an obligation to "exercise" authority.[228] The phrase "shall have the authority" is used throughout the enforcement obligations in Sections 2, 3 and 4 of Part III of the TRIPS Agreement, specifically, in Articles 43.1, 44.1, 45.1, 45.2, 46, 48.1, 50.1, 50.2, 50.3, 50.7, 53.1, 56 and 57.[229] It can be contrasted with terminology used in the minimum standards of protection in Part II of the TRIPS Agreement, such as "Members shall provide" protection, or that certain material "shall be" protected. The obligation in Article 46 that certain authorities "shall have the authority" to

[224] These figures do not total 0.15% due to rounding. See Customs Statistics in note 219 above.

[225] See provisions of the Customs IPR Regulations and Implementing Measures cited at para. 7.227 above, and China's confirmation of this point in its response to Question No. 30.

[226] United States' first oral statement, para. 55; rebuttal submission, para. 131.

[227] *New Shorter Oxford English Dictionary* (1993).

[228] This is without prejudice to other obligations regarding enforcement.

[229] The phrasing in Article 57 is slightly different. The phrase "shall have the authority" is also used in Articles 31(g), (k) and 34.1 in Part II of the TRIPS Agreement.

make certain orders reflects *inter alia* that orders with respect to specific infringements are left to enforcement authorities' discretion.[230]

7.237 This is confirmed by the context. Article 41.1 of the TRIPS Agreement, quoted at paragraph 7.170 above, obliges Members to ensure that enforcement procedures as specified in Part III are "available" under their law so as to "permit" effective action against infringement, which addresses the potential for action.

7.238 Given the potential importance of this interpretation to the operation of much of Part III of the TRIPS Agreement, the Panel notes that it is further confirmed by the records of the negotiation of the Agreement.[231] Previous drafts of the TRIPS Agreement had provided that the authorities shall "provide for" certain remedies, but this phrasing was changed to read shall "have the authority", as were a number of other draft provisions.[232] Therefore, the obligation that competent authorities "shall have the authority" to make certain orders is not an obligation that competent authorities shall exercise that authority in a particular way, unless otherwise specified.

7.239 Moreover, the obligation to have the authority to order certain types of remedies is not an obligation to have the authority to order those remedies *only*. Both parties to the dispute, and certain third parties, expressly recognize that the obligation that competent authorities "shall have the authority" to order certain types of remedies leaves Members free to provide that competent authorities may have authority to order *other* remedies not required to be within their authority by Article 59 of the TRIPS Agreement.[233]

7.240 The Panel agrees. The terms of Article 59 do not indicate that the authority to order the specified types of remedies must be exclusive. This interpretation is confirmed by Article 46, which forms part of the context of Article 59, as Article 59 incorporates the principles of Article 46, and both Articles are phrased as obligations that authorities "shall have the authority" to order certain types of remedies. The first sentence of Article 46 provides, basically, that authorities shall have the authority to order that goods be disposed of *outside* the channels of commerce *or* destroyed. At the same time, the fourth sentence of Article 46 relates to release *into* the channels of commerce which does not correspond to either of the remedies required by the first sentence. This is an express recognition that the remedies set out in the first sentence of Article 46 are not exhaustive. The same position applies under Article 59.

7.241 Given the potential importance of this interpretation to the operation of Part III of the TRIPS Agreement, the Panel notes that it is confirmed by the circumstances of conclusion of the Agreement.[234] One of the most important such circumstances was the fact that the pre-existing

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[230] Certain obligations guide the exercise of that discretion, for example, the principle of proportionality and the need to take into account the interests of third parties under the third sentence of Article 46.

[231] The Panel has recourse to this supplementary means of interpretation in accordance with Article 32 of the Vienna Convention on the Law of Treaties ("Vienna Convention") in order to confirm the meaning resulting from the application of the general rule of interpretation in Article 31.

[232] See, for example, the Composite Draft Text of 12 July 1990, MTN.GNG/NG11/W/76.

[233] United States' rebuttal submission, para. 163; response to Question No. 37; China's first written submission, para. 213; response to Question No. 37; Brazil third party written submission, para. 51; European Communities' third party written submission, para. 18.

[234] The Panel has recourse to this supplementary means of interpretation in accordance with Article 32 of the Vienna Convention in order to confirm the interpretation resulting from application of the general rule of interpretation in Article 31. The Panel recalls the view of the Appellate Body in its report on *EC – Computer Equipment* (at para. 86), quoted in its report on *EC – Chicken Cuts* (at para. 284), referring to Sinclair, I., *The Vienna Convention on the Law of Treaties*, 2nd ed., (Manchester University Press, 1984) (at p. 141), that recourse to the circumstances of conclusion of a treaty "permits, in appropriate cases, the examination of the historical background against which the treaty was negotiated".

international intellectual property agreements contained comparatively few minimum standards on enforcement procedures beyond national treatment and certain optional provisions.[235] One of the major reasons for the conclusion of the TRIPS Agreement was the desire to set out a minimum set of procedures and remedies that judicial, border and other competent authorities must have available to them. This represented a major advance in intellectual property protection, as reflected in the second recital of the preamble to the Agreement as follows:

> "*Recognizing*, to this end, the need for new rules and disciplines concerning:
>
> (c) the provision of effective and appropriate means for the enforcement of trade-related intellectual property rights, taking into account differences in national legal systems"[236]

7.242 At the same time, the negotiators appear to have considered it unnecessary to state in either Article 46 or Article 59 that the authorities could not release goods that had been found infringing into the channels of commerce. This may have been due *inter alia* to the fact that such an action itself could constitute infringement or otherwise expose the authorities to liability. Such an action would not constitute infringement if the circumstances of disposal were non-commercial or if the state of the goods was altered so that the goods no longer infringed. The negotiators addressed both these issues: in the first sentence of Article 46, by providing for disposal outside the channels of commerce (and destruction) and, in the fourth sentence, in regard to counterfeit trademark goods, by setting a minimum degree of alteration of the state of goods before release into the channels of commerce.

7.243 The European Communities submitted that all authority to order remedies, including those not required by Article 59, is subject to an overarching requirement that it be "in such a manner as to avoid any harm caused to the right holder".[237] China addressed the degree to which auction, even though it does not satisfy the requirement that disposal be outside the channels of commerce, might still avoid any harm caused to the right holder.[238] The United States also addressed this issue.[239]

7.244 In the Panel's view, an interpretation that applies the phrase "in such a manner as to avoid any harm caused to the right holder" to all authority to order remedies is based on a selective reading of Article 46. The requirement that authority to order a remedy be "in such a manner as to avoid any harm caused to the right holder" is linked in the text of Article 46 to one remedy only, namely disposal outside the channels of commerce.[240] This does not exclude the possibility that other actions, notably release into the channels of commerce, may be subject to requirements, provided that those requirements are set out in the terms of Article 46 or Article 59.

7.245 The parties disagree as to the circumstances in which competent authorities may be considered to have "authority" in accordance with Article 59, in particular, the extent to which the

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[235] The Panel Report in *US – Section 211 Appropriations Act* noted that:

> "The inclusion of this Part on enforcement in the TRIPS Agreement was one of the major accomplishments of the Uruguay Round negotiations as it expanded the scope of enforcement (…) of intellectual property rights. Prior to the TRIPS Agreement, provisions related to enforcement were limited to general obligations to provide legal remedies and seizure of infringing goods." (at para. 8.97)

[236] This language was agreed at the Uruguay Round Mid-Term Review meeting in April 1989 before the drafting of the TRIPS Agreement began: see document MTN.TNC/11, p. 14.

[237] European Communities' response to Third Party Question No. 16.

[238] China's first written submission, para. 214.

[239] United States' first written submission, para. 189; rebuttal submission, para. 161; response to Question No. 83.

[240] The European Communities appeared to acknowledge this initially in its third party written submission at para. 17.

availability of authority may be subject to conditions. China submits examples of other Members' legislation that, in its view, subject customs' authority to conditions.[241]

7.246 The Panel observes that the reference to alternatives in Article 59 of the TRIPS Agreement implies a particular type of condition. Article 59 requires authority to order "destruction *or* disposal" (emphasis added). It is not disputed that where competent authorities have authority in any given situation within the scope of Article 59 to order *either* destruction *or* disposal (in accordance with applicable principles), this is sufficient to implement the obligation in the first sentence of Article 59.[242] Therefore, a condition that precludes the authority to order one remedy (e.g. destruction) could be consistent with Article 59 as long as competent authorities still had the authority to order the other remedy (in this example, disposal).

7.247 The Panel also observes that a common feature of Sections 2, 3 and 4 of Part III of the TRIPS Agreement is that the initiation of procedures under these Sections is generally the responsibility of private right holders. This is reflected in the first sentence of Article 42 and the first sentence of Article 51, the reference to an "applicant" in Article 50.3 and 50.5, the reference to "request[s]" in Articles 46 and 48.1, and the option (not obligation) to make *ex officio* action available under Article 58. Viewed in context, the phrase "shall have the authority" does not require Members to take any action in the absence of an application or request. Therefore, a condition that authority shall only be available upon application or request seems to be assumed in much of Sections 2, 3 and 4 of Part III. This is consistent with the nature of intellectual property rights as private rights, as recognized in the fourth recital of the preamble of the TRIPS Agreement. Acquisition procedures for substantive rights and civil enforcement procedures generally have to be initiated by the right holder and not *ex officio*.

7.248 The above observations do not imply that other types of conditions that do *not* find such a reflection in the text may not be attached to the required authority. However, the Panel does not consider it necessary, for the purposes of its examination of this claim, to consider what other conditions, if any, may be attached to "authority" consistently with Article 59. Therefore, other than the two conditions mentioned above, the Panel will accept *arguendo* that the availability of the "authority" required by Article 59 may not be subject to conditions in any given situation within the temporal scope of that Article, as described in paragraph 7.234 above.

7.249 The "authority" required by Article 59 concerns two types of remedies, namely "destruction or disposal". The meaning of "destruction" is not controversial. As for "disposal", the Panel notes that the English text of Article 59 does not qualify this word so that it could, in accordance with its ordinary meaning, refer both to disposal outside the channels of commerce as well as to release into the channels of commerce.[243] However, read in context, the word "disposal" could be a reference to an order that goods be "disposed of" outside the channels of commerce as set out in Article 46. This ambiguity is resolved by reference to the French and Spanish texts, which are equally authentic.[244] The French text of Article 59 refers to authority to order "la mise hors circuit" which is a reference to the authority to order that infringing goods be "écartées des circuits commerciaux" in Article 46. The

[241] China's first written submission, paras 198-200, referring to Exhibits CHN-102, CHN-106 to CHN-112.

[242] United States' response to Question No. 41; China in fact submits that the minimum standard permits reasonable conditions and sequencing or structuring authority "in a conditional and circumstantial manner": see its first written submission, paras 196 and 202.

[243] The ordinary meaning of "disposal" can be defined as "the action of disposing of or getting rid of; the action of settling or dealing with". "Dispose" in turn can be defined as "get rid of; deal conclusively with, settle": see the *New Shorter Oxford English Dictionary* (1993). This would include release to an importer or third parties, whether or not in exchange for payment.

[244] See the final clause of the WTO Agreement. According to Article 33(3) of the Vienna Convention, the terms of the Agreement are presumed to have the same meaning in each authentic text.

Spanish text of Article 59 refers to authority to order "eliminación" which, read in its context as an alternative to "destrucción", is evidently a reference to the authority to order that infringing goods be "apartadas de los circuitos comerciales" in Article 46. Accordingly, the correct interpretation of the term "disposal" in the first sentence of Article 59 is disposal "outside the channels of commerce".

7.250 The Panel will refer to "destruction" and "disposal" collectively as "disposition methods" for ease of reference. It is not disputed that China's Customs measures provide the authority to order *destruction* of infringing goods in accordance with the principles set out in Article 46. However, the United States takes issue with what it considers the "highly limited circumstances" in which the Customs measures permit destruction.[245] China does not deny that its authority to order destruction is, in principle, subject to certain limitations but argues that China Customs has considerable discretion to decide whether such limitations apply. The statistics show that, in practice, over half of infringing goods seized by Customs in terms of value are in fact destroyed.[246]

7.251 The Panel recalls its finding at paragraph 7.246 above that China is permitted to limit the authority to order destruction of infringing goods provided that its competent authorities have the authority in such situations to order disposal of infringing goods in accordance with the principles set out in Article 46. The limitations on Customs' authority to order destruction of infringing goods are relevant to the claim only to the extent that they show that Customs has authority to order *neither* destruction of infringing goods *nor* disposal in accordance with those principles.

7.252 It is in this context that the United States claims that the measures establish a *mandatory* sequence of steps, as the authorities will not have either of the required forms of authority in a given situation if the measures at issue compel them to order another disposition method that is *not* required by Article 59.[247] This raises the so-called "mandatory/discretionary distinction" that has been discussed in a number of GATT and WTO Panel Reports relating to trade in goods.[248] Whilst authority to order a disposition method *not* required by Article 59 does not, in itself, lead to WTO-inconsistent action, to the extent that such authority mandates a disposition method in any given circumstance it may preclude authority that *is* required by Article 59. The preclusion of such authority may be WTO-inconsistent. For that reason, the Panel will examine whether certain aspects of the Customs measures are mandatory.

7.253 The Panel also notes that authority to order a disposition method within the scope of Article 59 will often be discretionary, as the obligation that Members' competent authorities "shall have the authority" to make particular orders applies to what those authorities are *permitted* to order by domestic law. Accordingly, the obligation in Article 59 is applicable to both mandatory and discretionary measures and, in principle, both mandatory and discretionary measures "as such" can be examined for conformity with that obligation.[249]

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[245] United States' second oral statement, para. 59; response to Question No. 81.

[246] China's rebuttal submission, para. 154. See the statistics at paragraph 7.349 below.

[247] United States' rebuttal submission, para. 161; responses to Questions Nos. 39, 41, 80 and 83.

[248] See further paragraph 7.358 below.

[249] The Panel notes that its approach is consistent with the view of the Appellate Body in *US – Corrosion-Resistant Steel Sunset Review* (at para. 93) that "as with any such analytical tool, the import of the 'mandatory/discretionary distinction' may vary from case to case". The Panel also notes that the possibility of obligations which would render illegal even discretionary legislation was specifically envisaged in the Panel Report in *US – Section 301 Trade Act* (at para. 7.53) as follows:

> "The question is then whether, on the correct interpretation of the specific WTO obligation at issue, only mandatory or also discretionary national laws are prohibited. We do not accept the legal logic that there has to be one fast and hard rule covering all domestic legislation. After all, is it so implausible that the framers of the WTO Agreement, in their wisdom, would have

7.254 The Customs measures at issue provide for three disposal options besides destruction. These are donation to social welfare bodies; sale to the right holder; and auction. The United States claims that *none* of these disposal options is in accordance with the principles set out in Article 46 and that all preclude authority to order destruction.[250] China responds that the first two of these disposal options constitute authority to order disposal in accordance with the principles set out in Article 46, and that the United States has not established that China Customs lacks authority to order destruction.[251] Therefore, the Panel will proceed as follows:

(a) First, the Panel will determine what are "the principles set out in Article 46";

(b) Second, the Panel will assess China Customs' authority to order donation to social welfare bodies and, if necessary, sale to the right holder, in order to determine whether they constitute authority to order disposal in accordance with the principles set out in the first sentence of Article 46; and

(c) Third, the Panel will assess China Customs' authority to order auction of infringing goods (plus either of the first two disposal options that is found to be disposal not in accordance with the principles set out in the first sentence of Article 46) to determine whether such authority mandates a particular disposition method and thereby precludes authority to order destruction.

(v) "the principles set out in Article 46"

7.255 The first sentence of Article 59 provides that 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". The phrase referencing the principles set out in Article 46 attaches to "the authority to order the destruction or disposal of infringing goods". This directs the treaty interpreter to those principles in Article 46 that attach to such authority.

7.256 The Panel makes the following observations. First, Article 59 refers to "authority". Second, Article 59 incorporates principles that attach to authority to order "destruction or disposal" (outside the channels of commerce for the reasons given at paragraph 7.249 above). Third, Article 59 relates to the authority to order destruction or disposal of "infringing goods" but not principles applicable to the disposition of materials and implements.

7.257 Article 46 of the TRIPS Agreement provides as follows:

"*Other Remedies*

> In order to create an effective deterrent to infringement, the judicial authorities shall have the authority to order that goods that they have found to be infringing be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, or, unless this would be contrary to existing constitutional requirements, destroyed. The judicial authorities shall also have the authority to order that materials and implements the predominant use of which has been in the creation of the infringing goods be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to minimize the risks of further infringements. In considering such

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crafted some obligations which would render illegal even discretionary legislation and crafted other obligations prohibiting only mandatory legislation?"

[250] United States' first written submission, paras 184, 189 and 191.

[251] China's rebuttal submission, paras 155, 156 and 171.

> requests, the need for proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties shall be taken into account. In 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."

7.258 The first sentence of Article 46 refers to "authority" to order that "infringing goods" be "disposed of … or … destroyed". Therefore, it seems pertinent to Article 59.

7.259 The second sentence of Article 46 refers to disposal of materials and implements and is therefore inapposite. Indeed, materials and implements used to create infringing goods would not normally be suspended at the border with the infringing goods, unlike during enforcement actions within a Member's territory.

7.260 The third sentence of Article 46 refers to "such requests" although the previous sentences do not refer expressly to any requests. The content of the third sentence clearly relates to materials and implements as addressed in the second sentence but it could equally relate to infringing goods as addressed in the first sentence. The text is ambiguous on this point. This ambiguity can be resolved by reference to the records of the negotiation of the TRIPS Agreement.[252]

7.261 The TRIPS Agreement was negotiated during the Uruguay Round in the Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods (referred to below as the "TRIPS negotiating group"). The Chairman's draft text of the Agreement of 23 July 1990 included a draft article corresponding to what is Article 46 in the text as finally agreed.[253] In that draft article, the principle of proportionality and the interests of third parties were related to a request of the right holder under the previous sentence. That request could be for remedies with respect to infringing goods as well as materials and implements. In a later draft[254], the first sentence of the provision on remedies was divided into two separate sentences, one with respect to infringing goods and the other with respect to materials and implements. Both sentences included the phrase "upon request from the right holder". In the same draft, the phrase "[i]n considering such a request" was revised to read "[i]n considering such requests" (in the plural). This is the version of the third sentence that was retained in the so-called "Brussels Draft"[255] and the final text of Article 46 of the TRIPS Agreement.

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[252] The Panel has recourse to a supplementary means of interpretation in accordance with Article 32 of the Vienna Convention in order to determine the meaning when the interpretation according to the general rule of interpretation in Article 31 leaves the meaning ambiguous.

[253] That draft article read as follows:

> "10. Other Remedies
>
> 10A Where an intellectual property right has been found to be infringed, the court shall have the authority to order, *upon request* of the right holder, that *the infringing goods, as well as materials and implements* the predominant use of which has been in the creation of the infringing goods, be, without compensation of any sort, destroyed or disposed of outside the channels of commerce in such a manner as to minimise any harm caused to the right holder. In considering *such a request*, the need for proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties shall be taken into account. [In regard to counterfeit goods] [Other than in exceptional cases], the simple removal of the trade mark [or geographical indication] unlawfully affixed shall not be ordered." (emphasis added) See Part IV of document MTN.GNG/NG11/W/76.

[254] Chairman's revised draft text of 13 November 1990, document no. 2814.

[255] See draft Article 49 in document MTN.TNC/W/35/Rev.1 dated 3 December 1990 entitled "Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations – Revision".

7.262 Accordingly, the records of the negotiation of the TRIPS Agreement clarify that the terms of Article 46 in the third sentence refer *inter alia* to the consideration of requests for orders that infringing goods be disposed of outside the channels of commerce or destroyed. Therefore, the third sentence seems pertinent to Article 59 as well.

7.263 The fourth sentence refers to a category of infringing goods, i.e. counterfeit trademark goods. It does not refer expressly to authority to order destruction or disposal outside the channels of commerce. However, the context shows that the principle of proportionality in the previous sentence guides the competent authorities' choice between the remedies specified in the first sentence and any alternative remedies. Similarly, the fourth sentence of Article 46 sets out a consideration that the authorities must take into account when choosing between the required remedies, namely those specified in the first sentence, and release into the channels of commerce, if such an order is available. The fourth sentence attaches to the scope of authority to choose between destruction or disposal outside the channels of commerce and release into the channels of commerce, if that remedy is available. Therefore, the fourth sentence of Article 46 seems pertinent to Article 59.

7.264 Article 59 refers to the "principles" set out in Article 46. Therefore, it is necessary to determine what precisely that refers to in the first, third and fourth sentences of Article 46. The word "principles" can be defined as "a general law or rule adopted or professed as a guide to action."[256] Each of these sentences of Article 46 contains language that is a guide to action by authorities and none dictate the precise terms of orders in specific cases.

7.265 The Panel does not consider that the choice of the word "principles" was intended to reflect a hierarchy of provisions within Article 46 that would include only the most general concepts and exclude the less general. There is a strong similarity in the language and purpose of the two provisions that both provide for authority to order destruction or disposal with respect to goods that have been found to infringe intellectual property rights at the conclusion of an enforcement procedure. However, there are also differences in the government agencies to which they relate ("competent authorities" to order remedies in border measures under Article 59 but "judicial authorities" under Article 46) and also in the scope of property to which the remedies apply ("infringing goods" under Article 59 and "infringing goods as well as materials and implements the predominant use of which has been in the creation of the infringing goods" under Article 46). These differences made it inappropriate simply to provide that the obligation in Article 59 applied "in accordance with Article 46" or otherwise incorporate the whole of Article 46. Instead, the cross-reference to "principles" avoided the duplication of a relatively large amount of text.[257] Therefore, in the Panel's view, the reference to "principles" is a reference to language that is a guide to action by authorities with respect to orders for the destruction or disposal of infringing goods.

7.266 Accordingly, for the purposes of Article 59, the Panel considers that the first sentence of Article 46 sets out the following "principles":

(a) authorities shall have the authority to order disposal or destruction in accordance with the first sentence "without compensation of any sort"; and

[256] *New Shorter Oxford English Dictionary* (1993).

[257] The Panel notes that the cross-reference from a draft article on remedies in Section 4 to the "principles" of a draft article on remedies in Section 2 was included in the earliest complete draft of the TRIPS Agreement, i.e. the Composite Draft Text of 12 June 1990 and can be traced to *inter alia* the EC draft text of May 1989 (MTN.GNG/NG11/W/68). The amount of duplication between the two provisions that the cross-reference avoided can be observed in the prior EC proposal (MTN.GNG/NG11/W/31): see note 261 below.

(b) authorities shall have the authority to order disposal "outside the channels of commerce in such a manner as to avoid any harm caused to the right holder";[258] or

(c) authorities shall have the authority to order destruction "unless this would be contrary to existing constitutional requirements".

7.267 The third sentence sets out the following principle that applies *inter alia* to the authority to order disposal or destruction of infringing goods under the first sentence:

(d) in considering such requests "the need for proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties shall be taken into account".

7.268 The fourth sentence sets out the following principle that attaches to the authority to order destruction or disposal of infringing goods under the first sentence:

(e) in 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.[259]

7.269 The interpretation of all these principles is informed by the common objective set out at the beginning of Article 46, i.e. "to create an effective deterrent to infringement" which is, in itself, also a guide to action with respect to orders for the destruction or disposal of infringing goods and, hence, a principle set out in Article 46.

7.270 In the Panel's view, the above are the "principles set out in Article 46" incorporated by the first sentence of Article 59.

7.271 China disagrees, arguing, in effect, that the second sentence of Article 59 constitutes a *lex specialis* that would exclude the incorporation of the fourth sentence of Article 46 into Article 59.[260]

7.272 The Panel observes certain similarities in the respective texts of the fourth sentence of Article 46 and the second sentence of Article 59. The second sentence of Article 59 provides as follows:

> "In regard to counterfeit trademark goods, the authorities shall not allow the re-exportation of the infringing goods in an unaltered state or subject them to a different customs procedure, other than in exceptional circumstances."

7.273 Like the fourth sentence of Article 46, this sentence begins with the words "[i]n regard to counterfeit trademark goods" and includes the words "other than in exceptional" circumstances (as opposed to cases). There is also a similarity in that the second sentence of Article 59 applies to goods "in an unaltered state" whilst the fourth sentence of Article 46 applies to "the simple removal of the trademark unlawfully affixed" which is a means of altering the state of counterfeit trademark goods. Both sentences are found in Articles that provide for remedies after particular enforcement procedures.

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[258] This principle is interpreted at paragraphs 7.278 to 7.285 below.
[259] This principle is interpreted at paragraphs 7.369 to 7.379 below.
[260] China first written submission, para. 222.

7.274 However, Article 59 applies to procedures at the border with respect to goods destined for importation whilst Article 46 applies to civil judicial procedures within Members' territories. The second sentence of Article 59 refers to re-export or release into a different customs procedure (for example, into transit) which is specific to the enforcement procedure in Section 4. Article 46 refers to release into the channels of commerce which can be applicable to importation and domestic sale in both Sections 2 and 4. The second sentence of Article 59 and the fourth sentence of Article 46 apply in different circumstances and neither is in fact more specific than the other.

7.275 There is no reason to infer that the risk of further infringement presented by counterfeit trademark goods was only intended to be addressed when the goods were re-exported or subject to another customs procedure and not when they were released at the border into the channels of commerce.[261] Counterfeit trademark goods suspended at the border and then released present a risk of further infringement whether the goods are released into the channels of commerce *within* a Member's territory, or transit through the Member's territory or are re-exported to another Member's territory, as under the second sentence of Article 59.

7.276 Indeed, read in context, the relevance of "release" of goods into the channels of commerce is even clearer in Article 59 than it is in Article 46. Section 4 concerns the suspension of "release" of goods to importers, and uses that word in Articles 51, 53.2, 54, 55, 56 and 58. In contrast, Article 46 is part of Section 2, on civil and administrative procedures and remedies, so the limited sense of "release" to an importer cannot apply. Read in context, a broader meaning, equivalent to release to any party in the channels of commerce, must apply when this word is used in relation to remedies.

7.277 For the above reasons, the Panel confirms its finding at paragraph 7.270 above as to the interpretation of "the principles set out in Article 46", as incorporated in Article 59.

(vi) "outside the channels of commerce in such a manner as to avoid any harm caused to the right holder"

7.278 The parties disagree as to the meaning of the principle set out in the first sentence of Article 46 that refers to disposal "outside the channels of commerce in such a manner as to avoid any harm caused to the right holder". The United States has raised concerns regarding the harm that donations may cause to right holders and the possibility that the donated goods may later be sold by the social welfare bodies.

7.279 The Panel notes that this principle, by its terms, relates to disposal of goods "outside" the channels of commerce, and not into the channels of commerce. It is not disputed that this principle is applicable to donations (i.e. gifts) to social welfare bodies for their own use or for charitable distribution. However, if the social welfare bodies later *sell* goods donated to them by Customs for charitable distribution, even to raise money for charitable aims, the goods are not in fact disposed of outside the channels of commerce but *into* the channels of commerce. If the social welfare bodies charitably distribute goods donated to them by Customs but the goods later find their way back into

[261] The records of the TRIPS negotiations shows that similar language to the fourth sentence of Article 46 and the second sentence of Article 59 together with the cross-reference to the principles of another article were included in the earliest complete draft of the TRIPS Agreement, i.e. the Composite Draft Text of 12 June 1990. That Draft Text took this language from the EC, US and Swiss draft texts (MTN.GNG/NG11/W/68, W/70 and W/73). For the record, it can be observed that the prior EC proposal had duplicated language between the two provisions without a cross-reference. In that proposal, what is now the fourth sentence of Article 46 appeared in what is now Article 59, without the cross-reference or the second sentence (MTN.GNG/NG11/W/31). Without acknowledging its relevance to the interpretation of Article 59, the Panel notes that the negotiating record to which China itself referred shows that another participant in the negotiations envisaged application of "exceptional cases" in the border measures remedies provision to importation as well as reshipment, quoted in China's rebuttal submission, para. 211.

the channels of commerce, this does not alter the fact that the goods were disposed of outside the channels of commerce, in the ordinary sense of "disposal".[262] Instead, the later sale of the distributed goods is relevant to the assessment of whether the disposal outside the channels of commerce was "in such a manner so as to avoid any harm caused to the right holder". Therefore, the Panel will consider the interpretation of that part of the principle in further detail.

7.280 This principle, by its terms, provides that authorities shall have the authority to order that the goods "be disposed of", in the passive voice. There is no obligation that the relevant authorities carry out the disposal themselves but rather they may entrust the actual disposal to another body. The carrying out of disposal "outside the channels of commerce" recognizes the opportunity for involvement of other bodies, such as charities, or non-commercial use by government. The principle attaches to the "manner" in which infringing goods are disposed of, not to the actual disposal. Authorities are not held responsible for acts of the bodies carrying out the disposal that is beyond the authorized manner. Further, the principle is that the manner shall be "so as to" avoid harm. This is phrased in terms of purpose, not result. The responsibility of the authorities is to ensure that the manner in which the goods are disposed of outside the channels of commerce is designed in such a way that it will comply with the principle.

7.281 The principle is that the manner of disposal shall "avoid" harm. China argues that this is an obligation to "pay due regard to".[263] However, the Panel notes that the ordinary meaning of "avoid" can be defined as "keep off, prevent; obviate".[264] Further, the principle is that the manner shall avoid "any" harm caused to the right holder, not just "harm" or "some" harm.[265] Therefore, the manner of disposal must be designed in such a way as to prevent any harm occurring to the right holder.

7.282 It must be recalled that disposal of infringing goods outside the channels of commerce, in context, is an alternative to destruction of the goods. In the Panel's view, this implies that any inherent risk of harm due simply to the fact that the goods have not been completely destroyed is insufficient to disqualify a disposal method, as it would nullify the choice between disposal and destruction. However, more specific concerns linked to harm caused to the right holder by a particular manner of disposal are relevant in assessing conformity with the principle that disposal outside the channels of commerce be "in such a manner as to avoid any harm caused to the right holder".

7.283 The Panel finds confirmation of this interpretation within Article 46. The fourth sentence of Article 46 expressly provides that simple removal of the trademark unlawfully affixed is not sufficient to permit release of counterfeit trademark goods *into* the channels of commerce other than in exceptional cases. In contrast, the first sentence of Article 46 contains a more general requirement that the requisite authority to order disposal of goods outside the channels of commerce shall be "in such a manner as to avoid any harm caused to the right holder". Whilst this reflects, in part, the fact that the first sentence does not only apply to counterfeit trademark goods, it also demonstrates that when goods are disposed of *outside* the channels of commerce it is not assumed that the removal of the trademark is required (or insufficient).

7.284 It remains possible that the trademark unlawfully affixed may cause confusion, depending on the circumstances in which goods are disposed of outside the channels of commerce. Practical requirements, such as removal of the trademark, affixation of a charitable endorsement or controls over the use of goods or distribution methods, may avoid confusion. The cooperation of the right holder would be valuable in this regard but the terms of the Article do not indicate that that is a

[262] See note 243 above.
[263] China's first written submission, para. 186.
[264] *New Shorter Oxford English Dictionary* (1993).
[265] United States' rebuttal submission, para. 133.

requirement.[266] However, the issue of harm to the right holder, whether to its reputation or through lost sales, through disposal of goods outside the channels of commerce without removal of the trademark unlawfully affixed depends on the circumstances. Otherwise, any disposal outside the channels of commerce where persons could simply observe a counterfeit trademark would be presumed to cause harm to the right holder. This result is not contemplated by the terms of Article 46, as the possibility of observing the counterfeit trademark is incidental to the requisite authority not to destroy the goods.

7.285 These observations are subject to the Panel's findings at paragraphs 7.239 to 7.240 above that the obligation that competent authorities "shall have the authority" to order certain types of remedies leaves Members free to provide that competent authorities may have authority to order *other* remedies not required by Article 59. The remedies specified in Article 59 are not exhaustive.

(vii) Donation to social welfare bodies

7.286 The Panel will now assess Customs' authority to order donation to social welfare bodies in order to determine whether it constitutes authority to order disposal of infringing goods in accordance with the principles set out in the first sentence of Article 46 of the TRIPS Agreement, specifically, whether it constitutes disposal "outside the channels of commerce in such a manner as to avoid any harm caused to the right holder".

7.287 The United States does not object to donation of goods to charity *per se*.[267] It accepts that donation with the right holder's consent may observe the principles of Article 46. The United States alleges that the measures do not provide any discretion to the Customs authorities to determine that transfer to a social welfare body is not appropriate in circumstances where the right holder would be harmed.[268]

– Defective goods

7.288 The United States argues that the donation of "shoddy counterfeit goods", if they fail to perform properly and especially if defective or dangerous, will damage the right holder's reputation or even expose it to claims for compensation.[269]

7.289 The Panel notes that the United States' argument is based on the legal structure of the measures, that allegedly allows defective goods to be donated.[270] The United States does not allege that any sub-standard, defective or dangerous goods have actually been donated by China Customs to social welfare bodies. In fact, apart from the text of the measures at issue, the United States submits only a US newspaper article titled *"China's New Concern: Exploding Phones"* reporting on an unrelated case of mobile phone batteries that had failed safety tests in China and were reportedly prone to explode under certain conditions.[271] The article reports statements by right holders that the batteries were counterfeit. There is no link in the story to Customs and no link to social welfare bodies. This alarming story is therefore irrelevant to the assessment of the claim as it adds nothing to the general point that goods can be dangerous.

[266] United States' first written submission, para. 185 and response to Question No. 72, submitting that donation to charities with the right holder's consent was a manner of disposal that avoids any harm to the right holder.
[267] United States' response to Question No. 72.
[268] United States' first written submission, para. 187.
[269] United States' first written submission, para. 186.
[270] United States' first oral statement, para. 50.
[271] Exhibit US-45.

7.290 China responds that its Customs would never donate defective or dangerous goods.[272] Article 27 of the Customs IPR Regulations sets out a condition for donation, in that it provides for donation "[w]here the confiscated goods which infringe on intellectual property rights can be used for the social public welfare undertakings". Article 30 of the Implementing Measures restates the condition, providing for donation "[w]here the goods concerned may be used directly for the social public welfare".

7.291 The Panel sees no reason why defective or dangerous goods would satisfy this condition. Nothing else in the evidence suggests that Customs would donate defective or dangerous goods to charity. Therefore, the Panel finds that it has not been demonstrated that Customs lacks authority to donate goods to social welfare bodies in such a manner as to avoid any harm to the right holder caused by defective or dangerous goods.

7.292 China also referred to Article 6 of the Law on Donations for Public Welfare which provides as follows:

> "Donation shall be made in compliance with laws and Regulations, and not in violation of social morality, nor to the detriment of public interests and the lawful rights and interests of other citizens."[273]

7.293 The Panel notes that this provision, on its face, refers to the "detriment of public interests" which could include the safety of persons who could potentially receive defective and dangerous goods from social welfare bodies where those goods were eligible for donation by Customs to those social welfare bodies. However, the Panel does not need to take a definitive view on this point as it has already found at paragraph 7.291 above that China has sufficiently substantiated its assertion on the basis of the provisions of the measures at issue.

– Harm to reputation

7.294 The United States submits that the above considerations do not address the situation of counterfeit and pirated goods that are usable but likely of lower quality. In its view, such goods could easily harm the right holder's reputation. Indeed, Article 6 of the Customs – Red Cross Memorandum (discussed at paragraphs 7.300 to 7.304 below) expressly foresees the possibility of handing over goods that have "quality problems".[274]

7.295 The Panel recalls its findings at paragraph 7.282 above that any inherent risk of harm due simply to the fact that the goods have not been completely destroyed is insufficient to disqualify a disposal method, and that evidence of actual harm caused to the right holder by the manner of disposal could be relevant in assessing whether the manner of disposal conforms to this principle.

7.296 Under ordinary circumstances, consumers may be misled as to the origin of counterfeit and pirated goods, and counterfeit goods with quality problems may harm right holders' reputations. The Panel has taken due note that nothing in the measures at issue obliges Customs or the social welfare bodies to remove counterfeit trademarks. Whilst the evidence shows that, in one case, the Red Cross imprinted its seal on a batch of donated infringing clothes, apparently to prevent the goods being sold

[272] China's first written submission, paras 162-163; response to Question No. 32.

[273] Mutually agreed translation no. 10. The Law on Donations for Public Welfare is, on its face, of general application (see Article 2) and therefore applicable to donations by Customs of infringing goods to social welfare bodies under the measures at issue.

[274] United States' rebuttal submission, para. 150.

after distribution[275], it is not suggested that this was pursuant to an obligation or is in any other way relevant to the "authority" that Customs has to order disposal of goods.

7.297 However, goods donated by Customs to the Red Cross are not distributed in ordinary circumstances. The Red Cross distributes donated goods itself, outside the channels of commerce, including in disaster relief projects, where it cannot simply be assumed that the recipients are misled as to the origin of the goods.[276] The recipients do not choose the goods in the way that ordinary consumers do, nor can it be assumed that the recipients are potential consumers of the genuine goods. The purposes of the Red Cross and the circumstances in which it may use goods donated by Customs form part of the legal structure bearing on the "manner" of disposal of infringing goods by Customs. Nothing in the evidence suggests that any harm has ever been caused, or is likely to be caused, to right holders' reputations due to donation of infringing goods under the measures at issue. In fact, the evidence shows that two internationally famous right holders have actually participated in the distribution by the Red Cross of goods that infringed their rights[277], suggesting that they do not presume donation of infringing goods harms their reputation. Therefore, the Panel finds that it has not been demonstrated that Customs lacks authority to donate goods to social welfare bodies in such a manner as to avoid any harm to the right holder caused by lower quality goods.

– Later sales of donated goods

7.298 The United States also alleges that "nothing appears to prevent [social welfare bodies] from selling the infringing goods they receive under the first "item" thus moving these goods back into commerce".[278]

7.299 China responds by reference to Article 30 of the Implementing Measures, which specifically provides in a final paragraph as follows:

> "In cases where relevant social welfare bodies use the infringing goods confiscated by Customs for the social public welfare, or the holder of the intellectual property rights assists Customs in destroying the infringing goods, *Customs shall carry out necessary supervision*."[279] (emphasis added)

7.300 China submits that this provision imposes on Customs a legal responsibility to ensure that donated goods are used exclusively for social welfare purposes.[280] By way of an example of Customs' implementation of its responsibility of supervision, China submits a Memorandum of Cooperation dated 13 May 2004 that the General Administration of Customs entered into with the Red Cross Society of China entitled "Memorandum of Cooperation on using confiscated infringing goods for social welfare" (the "Customs – Red Cross Memorandum").[281] This Memorandum was executed and entered into force shortly after the Implementing Measures were adopted but before they entered into force.[282]

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[275] Exhibit CHN-91.

[276] For example, the evidence shows goods being delivered in Red Cross packaging: Exhibit CHN-93.

[277] Exhibit CHN-91.

[278] United States' first written submission, para. 186.

[279] Mutually agreed translation no. 7. China also refers to Article 6 of the Law on Donations for Public Welfare, quoted at paragraph 7.292 above.

[280] China first written submission, para. 165.

[281] Exhibit CHN-92.

[282] The Standing Committee of the General Administration of Customs adopted the Implementing Measures on 22 April 2004. The Memorandum of Cooperation was executed by the General Administration of Customs and the Red Cross Society of China on 13 May 2004 and it came into force immediately: see Article 11. The Implementing Measures entered into force on 1 July 2004.

7.301 The Customs – Red Cross Memorandum recites the Customs IPR Regulations and other relevant laws and administrative regulations and sets up procedures regarding the use of confiscated infringing goods for social welfare.[283] It is, on its face, a legally binding agreement. Article 4 sets out the rights and obligations of Customs. Item (iv) provides that Customs must hand over the goods "free of charge". Hence, they are donations and not sales. Item (ii) obliges and entitles Customs to do the following:

> "(ii) monitoring the whereabouts and the usages of Goods. Requiring [Red Cross] to correct any of its actions that are found in violation of the provisions of this Memorandum;"

7.302 Article 5 sets out the rights and obligations of the Red Cross and includes the following item:

> "(iv) promptly notifying [Customs] of the distribution and the usage of the Goods upon the request of [Customs]."

7.303 Article 7 stipulates the use of goods donated to the Red Cross as follows:

> "The Goods handed over to [the Red Cross] by [Customs] shall be restricted for use only for the living purposes of the person who receives relief. [The Red Cross] shall take effective measures to prevent goods from being used for other purposes or entering into the channels of commerce by any means."

7.304 The Panel observes that these terms, on their face, (a) require the Red Cross to restrict the use of infringing goods and take measures to prevent their sale; and (b) obliges Customs to monitor use and entitles Customs to require the Red Cross to correct any violation of the restriction on use or its duty to take measures to prevent their sale. These measures, on their face, show that Customs has a responsibility for the manner in which the goods are disposed of, and that it has provided that that manner avoids their return to the channels of commerce.

7.305 The United States argues that the preventive measures that the Red Cross must take under the Memorandum "do not in fact demonstrate that, under Chinese law, the goods *cannot* return to the channels of commerce"[284] (emphasis added). However, the Panel recalls that, in accordance with the relevant principles set out in Article 46, Customs must have the *authority* to order that the goods be disposed of outside the channels of commerce, and that the responsibility of the authorities is to ensure that the "manner" in which the goods are disposed of outside the channels of commerce is designed in such a way that it will avoid any harm caused to the right holder.

7.306 China has provided evidence of cases of donation of infringing goods by Customs to the Red Cross Society. In one case, Customs donated infringing goods to the Red Cross that were allocated to people in areas struck by natural disasters such as typhoons, rainstorms and floods. The goods all infringed trademark rights and consisted of sport shoes, bags of rice noodles, washing powder, air-cooled chillers and kerosene heaters.[285] There is no evidence on the record that Customs has failed to discharge its responsibility to ensure that the use of such infringing goods is not circumvented and that goods do not find their way back into the channels of commerce.

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[283] The text of the Memorandum refers to "Party A" and "Party B", which are the General Administration of Customs and the Red Cross Society of China, respectively. The quotations from the Memorandum in this report refer to the parties by name for ease of reference.

[284] United States' rebuttal submission, para. 153.

[285] Exhibit CHN-93.

7.307 The Panel considers the Customs – Red Cross Memorandum particularly relevant to its assessment of Customs' authority to dispose of infringing goods by donation because the Red Cross Society of China is the recipient of the overwhelming majority of goods donated under the measures at issue. The statistics show that the Red Cross Society of China was the recipient of 91 per cent by value of the infringing goods donated by Customs in the years 2005 to 2007.[286] In fact, no infringing goods destined for importation have ever been donated to any social welfare body besides the Red Cross Society of China under the measures at issue during the period for which statistics are available.

7.308 The United States notes that other social welfare bodies are not *required* to enter into an agreement like the Customs – Red Cross Memorandum.[287] Donation of infringing goods to other social welfare bodies might not be in accordance with the principles set out in Article 46.

7.309 The Panel recalls its finding at paragraph 7.240 above that the remedies specified in Article 59 are not exhaustive. It has not been asserted that there are circumstances in which Customs can donate infringing goods to another social welfare body only and not to the Red Cross Society of China. In other words, authority to donate to another social welfare body does not preclude authority to donate to the Red Cross. Therefore, to the extent that Customs' authority to donate to the Red Cross Society of China conforms to the principles set out in Article 46, Customs has the authority to order disposal specified by Article 59. In any event, the possibility that other social welfare bodies might not have entered into a donation agreement, or that they might refuse to do so, is an issue to be demonstrated.

7.310 The United States argues that the Customs – Red Cross Memorandum does not demonstrate that Customs has the "authority" to order that goods be disposed of in such a manner because Customs must persuade a charitable organization both to enter into a donation agreement and to agree that it will not try to resell the goods.[288]

7.311 The Panel notes that Customs has already entered into the Memorandum with the Red Cross, and that Customs did so in the interval between the adoption and entry into force of the Implementing Measures. Customs does not need to persuade the Red Cross to agree any further to enter into such an agreement. Therefore, this does not disturb the Panel's finding at paragraph 7.309 above. In any event, the measures at issue show that if social welfare bodies refuse to accept donations, Customs can then consider other options which include, ultimately, destruction of the goods.

7.312 The Panel recalls that the United States' claim is that the three Customs measures at issue "provide no discretion" to Customs to determine that transfer to a social welfare body is not appropriate in circumstances where the right holder would be harmed and, hence, that Customs lacks authority to order disposal of infringing goods in accordance with the principles of Article 46.[289] On the evidence examined so far, the Panel's view is that the United States has not established that part of its claim, as the measures on their face show that: (a) Customs makes a determination as to whether infringing goods may be used for social public welfare; and (b) Customs has a duty to carry out necessary supervision of such use, which it executes by means of the Customs – Red Cross Memorandum.

7.313 The burden now shifts to the United States to show why, in light of this legal structure, the three Customs measures at issue "provide no discretion" to Customs to determine that transfer to a social welfare body is not appropriate in circumstances where the right holder would be harmed.

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[286] See Customs Statistics in note 219 above.
[287] United States' rebuttal submission, para. 152; see also second oral statement, para. 52.
[288] United States' comment on China's response to Question No. 74.
[289] See paragraph 7.287 above.

7.314 The United States referred, at the first substantive meeting and subsequently, to the Law on Donations for Public Welfare[290], in particular, Article 17 of that Law which authorizes public welfare organizations to sell donated goods on the market if certain circumstances are present.[291] China replied that the terms of a donation agreement concluded under Article 12 of the Law – such as the Customs – Red Cross Memorandum – prevailed over Article 17 by virtue of Article 18.[292] The United States responded that selling goods under Article 17 of the Law and ensuring the resulting funds continue to be put to the "use" prescribed in the donation agreement appears, on its face, to be an action consistent with the mandates of Article 18.[293]

7.315 The Panel has several concerns with this line of argument. First, the Law on Donations for Public Welfare does not fall within the Panel's terms of reference.[294] The United States stated that this Law confirmed its concerns that delivery of infringing goods to social welfare bodies "under Chinese law" does not ensure that the goods will remain outside the channels of commerce.[295] However, the claim only specified the three Customs measures and no other parts of Chinese law. Whilst this Law is relevant to China's defence regarding the Customs – Red Cross Memorandum, it appears that the United States, in substance, purports to make a new claim that the manner in which Customs disposes of goods to social welfare bodies is inconsistent with Article 59 of the TRIPS Agreement based on the three Customs measures *in conjunction with this Law*.[296] The Panel is not entitled to rule on such a claim in this dispute.

7.316 Second, the United States seems unsure of the proper interpretation of the Law on Donations for Public Welfare. It was unaware of the existence of this Law at the time of its first written submission, stating that "nothing appears to prevent public welfare organizations from selling the infringing goods they receive".[297] In response to a question from the Panel, the United States stated that "[i]t is not evident whether or how other provisions in this Law affect the operation of Article 17 …"[298] In response to a question from China, the United States stated that no legal authority to date demonstrated that Article 17 did *not* apply to all donations covered by the Law but that it "look[ed] forward to hearing more from China on this issue, including how the various provisions in the Law on Donations for Public Welfare relate to each other."[299] In its rebuttal submission, the United States asserted that selling donated goods under Article 17(iv) "appears, on its face, to be an action consistent with the mandates of Article 18."[300] In its comments on responses to questions after the second substantive meeting, the United States stated that the Law on Donations for Public Welfare

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[290] Adopted by the Standing Committee of the National People's Congress in 1999 and promulgated by Order of the President of the People's Republic of China, effective as of 1 September 1999.

[291] United States' first oral statement, para. 62; repeated in rebuttal submission, para. 151. An English translation of Article 17 of the Law, and a complete copy of the original version, were provided in Exhibit US-59.

[292] An English translation of Articles 12 and 18 of the Law was provided by China during the first substantive meting.

[293] United States' rebuttal submission, para. 154.

[294] WT/DS362/7, attached as Annex D-1 to this report.

[295] United States' first oral statement, para. 62.

[296] The United States did make such a distinction in its copyright claims where the claims under Article 9.1 of the TRIPS Agreement identified "Article 4 of the Copyright Law" but the claim under Article 3.1 of the TRIPS Agreement identified "Article 4 of the Copyright Law, *in conjunction with* the nationality-dependent pre-authorization and pre-distribution review processes established by the other measures at issue". (emphasis added) The copyright claims under Articles 41.1 and 61 of the TRIPS Agreement identified "Article 4 of China's Copyright Law, *both independently and in conjunction with* the other measures at issue" (emphasis added).

[297] United States' first written submission, para. 186.

[298] United States' response to Question No. 31.

[299] United States' response to Question No. 2 posed by China.

[300] United States' rebuttal submission, paras 151-154.

appears to allow sale into the channels of commerce when certain exigencies are present.[301] However, the United States has provided no evidence to support its assertion besides the text of the Law (which is unclear) and three provisions of the Contract Law (considered at paragraphs 7.320 to 7.322 below). The United States asserts that China has not provided any legal basis for asserting that the terms of the donation agreement override this Law. However, as the party asserting that, due to this Law, the measures at issue and a donation agreement do not fulfil China's obligations under Article 59, the United States bears the burden of proof.

7.317 Third, this issue involves a detailed point of Chinese domestic law as to the proper construction of the Law on Donations for Public Welfare. Article 17(iv), to which the United States refers, provides as follows:

> "Where the property donated is not preservable or transportable or exceeds the actual need, the donee may sell it, but all the income therefrom shall be used towards the aim of the donation."[302]

7.318 Meanwhile, Article 18 of the same Law, to which China refers, provides as follows:

> "Where the donee has concluded a donation agreement with the donor, he shall use the donated property according to the purpose of use prescribed in that agreement and may not alter the said purpose of use without authorization. Where such alteration is actually needed, he shall seek consent from the donor."[303]

7.319 The Panel observes that Article 12 of the Law recognizes the right of donors and donees to enter into donation agreements. Article 17 contains four paragraphs of which at least three provide for use of donated property by certain types of social welfare organizations. Article 17 limits use by such organizations in various general ways. Article 18 refers to use of donated property in accordance with the specific purpose set out in a donation agreement. It is not clear how the two provisions are reconciled. Article 18 might supplement Article 17 or, equally, set out an alternative that allows donors and donees to contract out of Article 17. Without further evidence, the Panel cannot reach any conclusion concerning either party's assertions regarding these provisions of this Law.[304]

7.320 The United States also makes reference to the Contract Law in support of assertions that even when a donation agreement has been reached, the Law on Donations for Public Welfare appears to allow sale into commerce[305] and that China's Contract Law indicates that when a contract contains a provision inconsistent with a Chinese law, the law prevails over that contract provision.[306] As the party making these assertions, the United States bears the burden of proving that they are true.[307] However, the United States does not link the latter assertion to the specific evidence of the dispute. Instead, it submits three provisions of the Contract Law.[308] The first provision provides for the

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[301] United States' comment on China's response to Question No. 74.

[302] Mutually agreed translation no. 10.

[303] *Ibid*. Article 28 of the Law provides for legal responsibility where a donee, without permission of the donor, alternates the nature or purpose of use of the property donated.

[304] See also China's response to Question No. 74.

[305] United States' second oral statement, para. 52; comment on China's response to Question No. 74.

[306] United States' second oral statement, para. 52, annexing Exhibit US-73, setting out three provisions of the Contract Law, and Exhibit US-74, setting out one article of a Judicial Interpretation of certain issues concerning the application of the Contract Law.

[307] Appellate Body Report in *US – Wool Shirts and Blouses*, at p. 14.

[308] Adopted and promulgated by the National People's Congress in 1999.

invalidity of an entire contract.[309] It provides no substantiation of the improbable suggestion that the narrow provision in Article 17(iv) of the Law on Donations for Public Welfare renders the entire Customs – Red Cross Memorandum invalid. The third provision provides for monitoring and dealing with certain illegal acts and its relevance is not clear.[310] The second provision, Article 123, reads as follows:

> "Where another law (法律) provides otherwise in respect of a certain contract, such provisions prevail."[311]

7.321 It is not clear what "otherwise" means, as the context of Article 123 has not been submitted in evidence. It seems that the suggestion is that, assuming Article 17(iv) of the Law on Donations for Public Welfare creates an "implied term", this could invalidate Article 7 of the Customs – Red Cross Memorandum by virtue of Article 123 of the Contract Law. However, the United States' assertions with respect to the collective construction of these two laws and a specific contract constitute mere speculation and the evidence on the record is wholly inadequate to form any view of it.[312]

7.322 Therefore, the terms of Article 17 of the Law on Donations for Public Welfare, read in context and in conjunction with the Contract Law, do not rebut China's defence nor, hence, disturb the Panel's finding at paragraph 7.312 above with respect to the terms of the Customs measures and the Customs – Red Cross Memorandum.

7.323 Lastly, the Panel recalls that the obligation in Article 59 is placed upon China, as the Member, and not upon the three Customs measures that the United States specified in its request for establishment of a panel. There is no reason why all conditions relevant to disposal outside the channels of commerce must appear in these three specific measures, as China is free to determine the method of implementation of its obligations under Article 59 in accordance with Article 1.1 of the TRIPS Agreement.[313] The Law on Donations for Public Welfare emerged in piecemeal fashion throughout these proceedings due to selective quotation by both parties to the dispute.[314] Yet the Law on Donations for Public Welfare is a public measure, adopted by the National People's Congress of China and promulgated by the President of China in 1999.[315] Had this Law, in particular Article 17, been the subject of consultations between the parties and specified in the request for establishment of the Panel in accordance with Article 6.2 of the DSU, it is likely that these issues would have been properly briefed and that the Panel could have reached a view on some of them.

7.324 For the reasons set out above, the Panel confirms its finding at paragraph 7.312 above and finds that the United States has not established that, with respect to the donation of infringing goods to

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[309] Article 52(v) of the Contract Law provides that "A contract is invalid in any of the following circumstances: (v) the contract violates a compulsory provision of any law (法律) or administrative regulation (行政法规)".

[310] Article 127 of the Contract Law provides that certain authorities shall monitor and deal with certain illegal acts.

[311] Exhibit US-73.

[312] See also China's response to Question No. 74.

[313] This was also the approach followed in the Panel Report in *EC – Trademarks and Geographical Indications (US)*, at paras 7.746-7.751.

[314] Article 6 of the Law on Donations for Public Welfare was provided with China's first written submission (Exhibit CHN-90); Article 17 with the United States' during first oral statement (Exhibit US-59); Articles 12 and 18 were provided by China later during the first substantive meeting and finally a complete translated copy was submitted after that meeting (Exhibit CHN-154). A mutually agreed translation was provided shortly before the second substantive meeting (MAT-10).

[315] See note 290 above. The United States accessed a copy of the Law from the Ministry of Commerce website prior to the first substantive meeting with the Panel: see United States' first oral statement, para. 61 and Exhibit US-59.

social welfare bodies under the measures at issue, Customs lacks authority to order disposal of infringing goods in accordance with the principles set out in the first sentence of Article 46.

(viii) Sale to the right holder

7.325 The second disposal method set out in the measures at issue is sale to the right holder. Sale to the right holder is voluntary in that it requires the consent of the right holder. If the right holder consents, it pays for the infringing goods at a price to be agreed.

7.326 Article 27 of the Customs IPR Regulations sets out sale to the right holder after donation to social welfare bodies. It uses the modal verb translated as "can" (or "may") (可以). Article 30 of the Implementing Measures sets out donation to social welfare bodies and sale to the right holder as alternatives with no apparent order between them.[316] Therefore, there appear to be no circumstances in which sale to the right holder is the only option available and could preclude any authority required by Article 59. In view of the Panel's finding at paragraph 7.324 above, it is therefore unnecessary to assess this option to determine whether the Customs measures are consistent with Article 59 of the TRIPS Agreement.

(ix) Auction and authority to order the destruction of infringing goods

7.327 The Panel will now consider Customs' authority to order that infringing goods be auctioned. Auction is the third disposal method set out in the measures at issue. Auction is not a form of destruction, and it is undisputed that auction is *not* a form of disposal outside the channels of commerce. Accordingly, this disposal method is clearly *not* required by Article 59.[317] However, the Panel recalls its finding at paragraph 7.240 above that the remedies specified in Article 59 are not exhaustive. Therefore, the fact that authority to order auction of infringing goods is not required is not in itself inconsistent with Article 59.

7.328 The United States claims that, because the auction method is allegedly mandatory, it deprives Customs of the authority to order destruction of infringing goods at a certain point within the purview of Article 59.[318] It does not allege that Customs has authority to order donation to social welfare bodies (or sale to the right holder) in circumstances where Customs is considering auction. In these circumstances, it is assumed that Customs has already decided against those other methods. The issue is only whether the authority to order auction precludes authority to order *destruction* of infringing goods.

7.329 The claim is that the measures, on their face, treat auction (and the other disposal methods) as "compulsory prerequisites" to destruction and create a "compulsory sequence of steps" that renders auction mandatory in certain circumstances.[319] China responds that the Regulations express a "preference" for certain disposition methods and that the Implementing Measures confirm this prioritization. China argues that the measures vest Customs with "considerable discretion" to determine what method is appropriate and that Customs has the legal authority to order any of the four disposition methods.[320]

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[316] The United States agrees that, as a legal matter, they are parallel options: see its response to Question No. 78.

[317] See paragraph 7.244 above.

[318] United States' rebuttal submission, para. 161; responses to Questions Nos. 39, 41 and 83.

[319] United States' first written submission, paras 191 and 194.

[320] China's first written submission, paras 158-159.

7.330 The Panel begins by examining the measures on their face. The Customs IPR Regulations set out four disposition methods in Article 27, of which auction is the third. With respect to auction, Article 27 provides as follows:

> "Where the confiscated goods infringing on intellectual property rights cannot be used for social public welfare undertakings and the holder of the intellectual property rights has no intention to buy them, Customs *can*, after eradicating the infringing features, auction them off according to law."[321] (emphasis added)

7.331 This phrase provides for the auction of infringing goods. It is conditional on the non-application of the first two methods, i.e. donation to social welfare bodies and sale to the right holder. This phrase uses a modal verb translated as "can" (or "may") (可以). This indicates that the Customs IPR Regulations impose no obligation to auction infringing goods even where the first two disposition methods are not applied.

7.332 The context confirms that the choice of this modal verb is significant as the same paragraph also uses the modal verb translated as "shall" (应当) for other disposition methods; specifically, it uses "can" or "may" for sale to the right holder and auction, but "shall" for donation to social welfare bodies and destruction.

7.333 The succeeding phrase on destruction provides that "[w]here the infringing features are impossible to eradicate, Customs shall destroy the goods." This indicates that the provision that Customs shall destroy the goods is conditional upon whether "the infringing features are impossible to eradicate". That condition, on its face, does not imply that there is any lack of authority to destroy the goods where the infringing features are *not* impossible to eradicate.

7.334 It seems clear from the text that the eradication of infringing features is a condition attached to the auction method. This is in fact expressly confirmed by the first operative paragraph of Public Notice No. 16/2007 quoted at paragraph 7.195 above. In other words, the *inability* to eradicate infringing features precludes the auction method. However, that does not imply that the *ability* to eradicate infringing features precludes the destruction method because the auction method is optional, not mandatory, under Article 27 of the Customs IPR Regulations.

7.335 The United States submits that if none of the first three options is viable, "Customs *may, then and only,* proceed to the third item: destruction of the goods" (emphasis added).[322] However, in the Panel's view, this misreads the text which provides that if none of the first three options is viable, Customs shall destroy the goods. It does not state that Customs *shall not* destroy the goods in other situations.

7.336 In summary, Article 27 of the Customs IPR Regulations provides for four options of which the second, as well as the third, i.e. auction, are optional. The Panel will examine whether this position is altered by the Implementing Measures.

7.337 The Implementing Measures provide for the same four disposition methods in Article 30 in the same order. Article 30 sets out the first two options as alternatives in a single item numbered (1), then sets out auction in item (2) and destruction in item (3). Article 30 establishes a clear order among these options by providing that item (2) (auction) applies:

> "[w]here the goods concerned cannot be disposed of in accordance with Item (1) but the infringing features can be eradicated";

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[321] Mutually agreed translation no. 6.
[322] United States' first written submission, para. 182.

and providing that item (3) (destruction) applies:

> "where the goods concerned cannot be disposed of in accordance with Items (1) and (2)".

7.338 Like Article 27 of the Customs IPR Regulations, item (3) on destruction provides that the goods "shall" (应当) be destroyed when the above condition is met. However, this does not, of itself, imply that destruction is not permitted where the other disposition methods are available. That would depend on whether the measure obliged Customs to order any of the other disposition methods in any circumstances.

7.339 The parties agreed to include the modal verb "shall" in all three items of Article 30 of the Implementing Measures for the purposes of translation into English but China maintains that the measure gives Customs considerable discretion.[323] The Panel does not assume that the use of the word "shall" in a non-authentic translation of the Implementing Measures necessarily denotes an obligation in the same way as the word "shall" when used in the English version of the WTO covered agreements. The Panel notes that the original, authentic version of Article 30 of the Implementing Measures does not include a modal verb in either item (1) or item (2) with respect to any of the first three disposition methods but only in item (3) with respect to destruction. The original version uses the modal verb translated as "shall" (应当) in the introductory sentence that reads "Customs 'shall' dispose of infringing goods it has confiscated according to the following provisions".[324] The first three disposition methods are then set out as a series of steps that, in different circumstances, Customs "hands over", "assigns" or "auctions off"[325], in contrast to item (3) which uses the modal verb translated as "shall" (应当) (as does the concluding paragraph, twice). This may indicate that Customs has a degree of discretion under the Implementing Measures, as China maintains. Therefore, the Panel does not consider that the text of Article 30 of the Implementing Measures is sufficiently clear on its own to conclude that it obliges Customs to auction goods at any point.

7.340 The Implementing Measures were adopted by the Standing Committee of the General Administration of Customs to implement the Customs IPR Regulations, which were enacted by the Standing Committee of the State Council. The State Council is the highest organ of administrative power in China. Therefore, any ambiguity in the Implementing Measures should be resolved by reference to the higher norm, i.e. the Customs IPR Regulations.[326] Article 27 of the Customs IPR Regulations provides that auction is optional.

7.341 Public Notice No. 16/2007 is another measure of the General Administration of Customs of general application with respect to the auction of infringing goods. It contains a single recital that reads as follows:

> "In accordance with Article 27 of the Regulations of the People's Republic of China on Customs Protection of Intellectual Property Rights (hereinafter referred as the 'Regulations'), where the confiscated goods infringing intellectual property rights cannot be used in social public welfare and the holder of intellectual property rights does not wish to buy them, the Customs *may* auction them off according to law after eradicating the infringing features. In order to regulate the auction of infringing

[323] See paragraph 7.328 above.

[324] Only the original version of the measures is authentic.

[325] Item (2) also includes the adverb 依法 which has been translated as "according to law". The United States acknowledges that this means auction should comply with the relevant rules governing these activities: see response to Question No. 77.

[326] The United States agrees that the higher source of law will likely carry more weight: see its response to Question No. 27.

> goods by Customs, improve the transparency of enforcement by Customs, and safeguard the right to know of the holders of intellectual property rights, it is hereby publicly notified as follows in respect of relevant matters:" (emphasis added)

7.342 The recital indicates that the General Administration of Customs issued this Public Notice for the express purposes of regulating the auction of infringing goods by Customs and improving transparency of enforcement by Customs, as well as granting a right to comment to right holders. The Panel observes that although Public Notice No. 16/2007 post-dates both the Customs IPR Regulations and the Implementing Measures, it recites only the permissive language of Article 27 of the Customs IPR Regulations in describing its authority to auction infringing goods.[327] This tends to confirm that any ambiguity in the Implementing Measures should be resolved by reference to the higher norm, i.e. the Customs IPR Regulations.[328]

7.343 Accordingly, the Panel finds that the United States has not established that the Customs measures on their face oblige Customs to order the auction of infringing goods.

7.344 The evidence on the record also includes documents from Customs' case files and statistics that indicate how Customs has in fact discharged its authority under Article 30 of the Implementing Measures to destroy, rather than auction, goods. The Panel considers it appropriate to review this evidence, bearing in mind that the claim concerns whether Customs "[has] the authority" to order destruction, not whether it actually uses that authority.

7.345 The Panel observes that the documents from Customs' case files show that destruction has occurred in a circumstance that is not mentioned on the face of the Implementing Measures. Given that auction is the third disposition method in the order established in the measures at issue and that destruction is the fourth and last, auction must necessarily have been decided against with respect to any goods destroyed. The Implementing Measures on their face set out only one condition that, if not satisfied, would dictate a decision to destroy goods, rather than auction them. That condition, set out in item (2) of the Implementing Measures, is that "the infringing features can be eradicated".

7.346 However, in one case concerning counterfeit automobile parts, Customs expressly stated a different reason for not auctioning the goods. It stated that the infringing goods could not be used for public welfare and the right holders had no intention to purchase the goods (a condition on the face of the Implementing Measures) *plus* "[t]he safety of these goods can not be guaranteed, and thus it is not

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[327] The United States agrees that Public Notice No. 16/2007 "merely confirms the current hierarchy of disposal options for confiscated goods that exist under China's measures": see United States' first written submission, fn. 118.

[328] The Panel also observes that the documents from Customs' case files cite the Customs IPR Regulations but do not cite the Implementing Measures: for example, a Report on the destruction of certain infringing goods cites the Customs Law, the Trademark Law and the Customs IPR Regulations and reports that the goods were destroyed in accordance with the provisions of the Customs IPR Regulations (Exhibit CHN-96). In another case, a Decision Notice cited the Trademark Law, the Customs IPR Regulations and Regulations on the Implementation of Customs Administrative Punishments (Exhibit CHN-98). In another case, an Application form for destruction of infringing goods cites Article 27.3 of the Customs IPR Regulations in an opinion that goods should be destroyed (Exhibit CHN-99).

appropriate to auction them."[329] That condition does not appear on the face of the Implementing Measures. No reference was made to the eradication of infringing features.[330]

7.347 The issue of safety is not mentioned on the face of the Implementing Measures and the United States does not allege that it is somehow implied, for example, by the requirement that goods be auctioned "according to law".[331] China submits that Customs may not auction goods with quality and safety defects in accordance with the Law on Product Quality[332] and asserts that there are other applicable norms, that it does not substantiate.[333] The United States does not dispute that there may be other applicable laws but argues that, even if they do apply, the Customs hierarchy still remains mandatory.[334] The United States acknowledges that it "does not know" whether goods may have been destroyed for reasons other than those "mandated" in the Customs measures.[335]

7.348 In the Panel's view, if the United States argues that the measures are mandatory "on their face", the argument is that the measures are mandatory as stated. The fact that there appear to be circumstances in which Customs departs from the terms of the measures indicates that, at the very least, the measures are not "as mandatory" as they appear on their face which calls into question whether the particular disposal method at issue is, indeed, mandatory at all. This is consistent with the view that, in accordance with the terms of Implementing Measures, as interpreted in light of the

[329] An Application form for destruction of infringing goods apparently prepared by Fuzhou Customs in 2006 refers to the destruction of certain counterfeit automobile parts. The application form sets out the opinion of the case handlers (in this case "suggesting destruction") and the opinions of the section chief, division chief and director (in each case "agreed" or a signature) in Exhibit CHN-99.

[330] China submitted evidence of three other cases in which Customs destroyed goods, allegedly for reasons other than that the infringing features could not be eradicated. However, the Panel does not find these case files probative. In a case concerning counterfeit game consoles, Customs states the reasons for destruction. These were that the goods infringed trademarks and "design patent rights". This does not expressly mention eradication of the infringing features (a condition on the face of the Implementing Measures for auction), but it might have implied that, as features of shape or ornamentation, the infringing features could not be eradicated: see "Report on the Destruction of the Counterfeit PS Game Console by Huangpu Customs" 埔关法 [2008] No. 78 in Exhibit CHN-96. Elsewhere, China suggests that "design patent rights" imply that the infringing features cannot all be eliminated: see China's first written submission, para. 224.

In a case concerning counterfeit electric irons, China submits a summary of the case and that asserts that the infringing features could be eliminated and the goods could be auctioned according to law but the goods were destroyed because they presented quality problems and safety risks. The Panel notes that the infringing goods were confiscated and the exporter was fined: see Decision Notice of Administrative Punishment 拱关知字 [2006] No. 9. Customs notified the exporter that it would sell the goods (as well as the vehicles) in case of non-payment of the fine but destroyed them instead. The Opinion Form does not state the reason why Customs chose to destroy, rather than auction, the goods. See Exhibit CHN-98.

In a case concerning counterfeit motorcycle seats, China asserts that the goods were destroyed because Customs determined that even the slight risk of defect warranted their destruction. However, this is not clear from the supporting documents: see a report prepared by Huangpu Customs in the case shows only that the infringing goods were destroyed without giving the reason in Exhibit CHN-173.

[331] United States' response to Question No. 77.

[332] Law on Product Quality, adopted by the Standing Committee of the National People's Congress and promulgated by Order No. 71 of the President of the People's Republic of China on 22 February 1993, amended in accordance with a Decision of the Standing Committee of the National People's Congress on 8 July 2000. Articles 12 and 13 of this Law are reproduced in Exhibit CHN-97: see China's first written submission, para. 170; response to Question No. 82. The Panel also notes that a document prepared by the General Office of Fujian Provincial People's Government dated 8 March 2006 in the case of the counterfeit automobile parts also refers to requirements of the National Office for Combating Smuggling that "all smuggled dismantled automobiles and fittings confiscated shall not be auctioned or released to the market, and shall be disposed by the local Customs after being crushed": in Exhibit CHN-99.

[333] China's response to Question No. 82.

[334] United States' second oral statement (closing statement), para. 22; response to Question No. 78.

[335] United States' response to Question No. 79.

Customs IPR Regulations, the auction method is not in fact mandatory, in the sense that it does not preclude the destruction option.

7.349 Uncontested statistics provided by China[336] show that Customs orders the disposition of infringing goods in the following proportions in terms of shipments: (1) donation to social welfare bodies (53.5%); (2) destruction (44.9%); (3) auction (0.87%); and (4) sale to the right holder (0.65%). The proportions in terms of value are as follows: (1) destruction (57.5%); (2) donation to social welfare bodies (39.5%); (3) auction (2.2%); and (4) sale to the right holder (1%).[337] The statistics are consistent with the Panel's reading of Article 27 of the Customs IPR Regulations, as set out at paragraph 7.336 above, as they show that the two disposition methods that are clearly optional under the Regulations are used far less than the two that are not.

7.350 Further, if one excludes all goods disposed of under item (1) of the Implementing Measures (i.e. by donation to social welfare bodies or sale to the right holder), one is left with the subset of goods where Customs chose between auction and destruction. The Implementing Measures on their face provide for the destruction of such goods only where the infringing features cannot be eradicated. The statistics show that, among goods dealt with under items (2) and (3) of the Implementing Measures, the following decisions were in fact made in terms of the number of shipments and the relative value of the infringing goods:

		2005	**2006**	**2007**	**Total**
By shipment[338]					
Exports + imports	Auctioned	4	7	1	12
	Destroyed	143	227	248	618
By value					
Exports + imports	Auctioned	7.10%	3.54%	0.59%	3.70%
	Destroyed	92.90%	96.46%	99.41%	96.30%
Imports only	Auctioned	0%	0%	0%	0%
	Destroyed	100.00%	100.00%	100.00%	100.00%

7.351 It is apparent that the number of shipments destroyed far exceeds the number of shipments auctioned, and that in three years Customs has only decided to auction goods twelve times. In fact, no infringing goods destined for importation have ever been auctioned under the measures at issue during the period for which statistics are available. Customs evidently has little, if any, difficulty in choosing to destroy goods, which is consistent with the view that it has wide authority to do so.

7.352 The Panel notes that there is a small number of cases where Customs has ordered the auction of goods. However, the small number of cases of auction does not indicate whether this was pursuant to a choice not to destroy the goods, or whether Customs considered that it lacked the authority to destroy the goods. The Panel reiterates that the pertinent issue is whether Customs was *permitted* by

[336] See Customs Statistics in note 219 above.
[337] See Customs Statistics at note 219 above.
[338] The number of shipments of imports auctioned was zero. Separate figures for the number of shipments of imports destroyed were not provided.

law to order destruction in those cases.[339] The United States agrees that a Member may *choose* between destruction and auction in its discretion provided that it has unconditional power to order destruction in all circumstances.[340]

7.353 The very low rate of auctions is consistent with the view that auctions are not mandatory. It could be consistent with the view that the auction method is mandatory if there were some indication that the infringing features cannot be eradicated from an exceedingly large number and proportion of goods confiscated by Customs. However, in the absence of such evidence, and in light of the other evidence discussed above, the Panel does not accept that view.

7.354 For the above reasons, the Panel finds that the United States has not established that the authority to order auction of infringing goods under the Customs measures precludes authority to order destruction of infringing goods in accordance with the principles set out in the first sentence of Article 46.

7.355 The Panel recalls its findings at paragraphs 7.324 and 7.354 and concludes that the United States has not established that the Customs measures are inconsistent with Article 59 of the TRIPS Agreement, as it incorporates the principles set out in the *first* sentence of Article 46 of the TRIPS Agreement.

(x) Auction and "simple removal of the trademark unlawfully affixed"

– Procedural issue

7.356 The Panel recalls its finding at paragraph 7.270 above that "the principles set out in Article 46" as incorporated by Article 59 of the TRIPS Agreement include the *fourth* sentence of Article 46. That sentence provides as follows:

> "In 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."

7.357 The Panel has *not* found that the Customs measures are mandatory with respect to the auction of infringing goods. However, the Panel does not consider that this is fatal to the United States' claim with respect to the fourth sentence of Article 46.[341]

7.358 The Panel recalls its finding at paragraph 7.253 above that the obligation in Article 59 applies both to mandatory and discretionary measures as the obligation that Members' competent authorities "shall have the authority" to make particular orders attaches to what the authorities are *permitted* by law to order, not only to what they *must* order. This finding applies *a fortiori* to the principle in the fourth sentence of Article 46 as only discretionary authority to order release of goods into the channels of commerce will not preclude the authority required by the first sentence of Article 46 at some point.[342] The principle in the fourth sentence of Article 46 regarding authority to order the release of goods into the channels of commerce, as an alternative to destruction or disposal outside the channels of commerce, could be redundant if it did not apply to discretionary measures.[343] Therefore,

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[339] The issue here can be contrasted with that addressed in paragraph 7.138 above. It is not disputed that Article 4(1) of the Copyright Law is mandatory, and the obligation at issue in that claim is not phrased in terms that authorities "shall have the authority".

[340] United States' response to Question No. 41.

[341] China acknowledged that this claim was also made with respect to the fourth sentence of Article 46: see China's first written submission, para. 6; first oral statement, para. 68; rebuttal submission, para. 8.

[342] This is without prejudice to the Panel's comments at paragraph 7.244 above.

[343] The position is the same under the second sentence of Article 59.

the fact that authority to release goods into the channels of commerce is not mandatory does not shield such a disposition method from a Panel's assessment of its conformity "as such" with Article 59 of the TRIPS Agreement, as it incorporates the principle in the fourth sentence of Article 46.

7.359 This particular case also presents a specific set of circumstances. The nature of the measures at issue is such that, even if they do not mandate auction (and do not preclude authority to order destruction) the elimination of the infringing features *is* mandatory in every case where Customs chooses to auction infringing goods (as discussed below). If the elimination of the infringing features constitutes simple removal of the trademark, it will be inconsistent with the principle in the fourth sentence of Article 46, as incorporated by Article 59, in all cases where Customs orders auction of infringing goods. Although Customs has never auctioned goods destined for importation, this may be due only to the smaller volume of infringing goods destined for importation rather than exportation.[344] China does not assert that Customs might auction goods destined for importation in future[345] but defends its auction method based on its own good faith interpretation of the requirements of Article 59 of the TRIPS Agreement and of the fourth sentence of Article 46. Indeed, China advises the Panel that auction, whether of exports or imports, is a "preferred" disposition method in certain circumstances and it vigorously defends its right to use it, albeit sparingly. Therefore, the Panel's rulings on the applicability of the fourth sentence of Article 46, as incorporated in Article 59, of the TRIPS Agreement and the conformity of China's auction method with that provision will, to the extent that the obligation is applicable, prevent China *ex ante* from engaging in certain conduct inconsistent with its obligations under a covered agreement, which is precisely the purpose of an "as such" claim.[346]

7.360 Therefore, the Panel will continue with its assessment of this claim with respect to the other principle set out in Article 46 that the United States has raised.

– Simple removal of the trademark unlawfully affixed

7.361 The Panel recalls that the parties have differing views as to the applicability of this principle. The United States submits that the fourth sentence of Article 46 is applicable under the first sentence of Article 59.[347] China considers that Customs is not subject to the principles articulated by the fourth sentence of Article 46.[348] The Panel has found that the fourth sentence of Article 46 is so applicable and will now interpret the principle that it sets out.

7.362 The fourth sentence of Article 46 reads as follows:

> "In 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."

7.363 The term "counterfeit trademark goods" is defined by footnote 14(a) to the TRIPS Agreement as follows:

> "For the purposes of this Agreement:

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[344] See paragraphs 7.232 and 7.233 above.

[345] This can be contrasted with the position of the respondent in the GATT Panel Report in *US - Superfund* (at para 5.2.9 and noted at para. 5.2.10); the GATT Panel Report in *US - Tobacco* (at para. 122); and the WTO Panel Report in *US – Section 301 Trade Act* (at para. 7.112).

[346] See Appellate Body Report in *US – Oil Country Tubular Goods Sunset Reviews*, para. 172.

[347] United States' first written submission, paras 175-178.

[348] China's first written submission, paras 218-222.

> (a) '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;"

7.364 Turning to the measures at issue, the Panel recalls its findings at paragraph 7.225 above that the measures at issue apply *inter alia* to counterfeit trademark goods and at paragraphs 7.331 and following that the measures permit auction of such goods. In this regard, Article 27 of the Customs IPR Regulations provides as follows:

> "Where the confiscated goods infringing on intellectual property rights cannot be used for social public welfare undertakings and the holder of the intellectual property rights has no intention to buy them, Customs can, *after eradicating the infringing features*, auction them off according to law."[349] (emphasis added)

7.365 It seems clear from this provision that the eradication of infringing features is a condition attached to auction of goods confiscated by Customs. Article 27 of the Customs IPR Regulations is implemented and confirmed by Article 30(2) of the Implementing Measures[350] and is expressly confirmed by the first operative paragraph of Public Notice No. 16/2007 which provides, relevantly, as follows:

> "Where the confiscated infringing goods are auctioned by Customs, Customs shall completely eradicate all infringing features on the goods and the packaging thereof strictly pursuant to Article 27 of the Regulations, including eradicating the features infringing trademarks, copyright, patent and other intellectual property rights."[351]

7.366 It is undisputed that in all cases in which Customs auctions goods that it has confiscated under the measures at issue, Customs first removes the infringing features.[352] It is clear from the measure on its face that the phrase "infringing features" refers to features that infringe any intellectual property rights covered by the measures, including not only trademarks, but also copyright and patents. With respect to counterfeit trademark goods, it seems obvious that the infringing features will comprise the counterfeit trademarks. Therefore, the fact that the measures refer to infringing "features" does not suggest that anything besides the counterfeit trademark is eradicated in these cases. China has confirmed that "with regard to trademark-infringing goods, elimination of infringing features refers to removal of the infringing trademark from the goods".[353]

7.367 Therefore, insofar as the state of the counterfeit trademark goods is concerned, the only action taken prior to auction is the removal of the trademark. The question arises whether this constitutes "simple" removal of a trademark within the meaning of the fourth sentence of Article 46 of the TRIPS Agreement.

7.368 China argues that its measures do not provide for "simple" removal of the trademark because they also provide an opportunity for the trademark right holder to comment prior to auction.[354] This

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[349] Mutually agreed translation no. 6.
[350] See paragraph 7.194 above.
[351] Mutually agreed translation no. 8.
[352] United States' first written submission, para. 56; rebuttal submission, para. 169; China's first written submission, para. 224; rebuttal submission, para. 194.
[353] China's response to Question No. 34.
[354] China's first written submission, para. 224.

procedure is set out in the second operative paragraph of Public Notice No. 16/2007.[355] China does not allege that Customs has an obligation to take any right holder's comments into account.[356]

7.369 The Panel notes that the word "simple" can be defined as "with nothing added; unqualified; neither more nor less than; mere, pure".[357] A situation in which a trademark is removed from a good and no other action is taken will constitute "simple" removal of the trademark. Therefore, the Panel's preliminary view is that eradication of the infringing features under the measures at issue constitutes "simple" removal of the trademark as contemplated by the fourth sentence of Article 46, as incorporated by Article 59.

7.370 It is inevitable that a Member's authorities exercising authority under Article 59 will take certain actions of a procedural nature in releasing the good into the channels of commerce, such as physically transferring them to the custody of another party. The question is which other actions render removal of the trademark unlawfully affixed not "simple".

7.371 The context within the fourth sentence of Article 46 shows that simple removal of the trademark unlawfully affixed "shall not be sufficient" to permit release of the goods into the channels of commerce. The text does not prohibit the release of the goods into the channels of commerce *per se*. Rather, by specifically addressing the case of counterfeit trademark goods, and stating what is "not … sufficient" to permit release, the provision impliedly permits release of counterfeit trademark goods into the channels of commerce where more than simple removal of the trademark is carried out.

7.372 Removal of a counterfeit trademark would ensure that the goods do not infringe the exclusive rights set out in Article 16 of the TRIPS Agreement. However, the fourth sentence of Article 46 provides that that shall *not* be sufficient, other than in exceptional cases. The fact that the negotiators included an additional requirement shows that this principle is intended to achieve more than simply the cessation of an infringement.

7.373 The context within Article 46 shows that the fourth sentence is one of a series of expressions of an objective set out at the beginning of that Article, namely, "to create an effective deterrent to infringement". Where counterfeit trademark goods are released into the channels of commerce after the simple removal of the trademark unlawfully affixed, an identical trademark can be produced or imported separately and unlawfully reaffixed, often with relative ease, so that the goods will infringe once again.

7.374 This problem applies to counterfeit trademark goods in particular because, as provided in the definition of "counterfeit trademark goods" in footnote 14(a) to the TRIPS Agreement, the counterfeit trademark is *identical* to the valid trademark or cannot be distinguished in its essential aspects from the valid trademark. Counterfeit trademark goods are more likely to imitate the appearance of genuine goods in their overall appearance and not simply in the affixation of the counterfeit trademark, as the likelihood that a counterfeit trademark good will confuse a consumer is related to the degree to which all its features, infringing and non-infringing, resemble the genuine good. Where the counterfeit trademark is removed, the resulting state of the goods may still so closely resemble the genuine good that there is a heightened risk of further infringement by means of re-affixation of a counterfeit trademark. Whilst this may be true of other, non-infringing goods as well, the goods confiscated by Customs are already counterfeit and are being released into the channels of commerce. The negotiators evidently considered that the heightened risk of further infringement warranted additional measures to create an effective deterrent to further infringement.

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[355] See paragraph 7.195 above.

[356] For example, in a case concerning counterfeit padlocks, the right holder objected to auction and offered to buy the goods. However, Jinhua (金华) Customs destroyed the goods instead: see Exhibit CHN-94.

[357] *New Shorter Oxford English Dictionary* (1993).

7.375 Viewed in light of the objective, the "simple" removal of the trademark is principally a reference to the fact that the state of the goods is not altered in any other way so that the absence of the trademark is not an effective deterrent to further infringement. Removal of the trademark is not "simple" if the state of the goods is altered sufficiently to deter further infringement.

7.376 The Panel finds confirmation for this interpretation in the second sentence of Article 59, which addresses the same issue but in a different context, and provides as follows:

> "In regard to counterfeit trademark goods, the authorities shall not allow the re-exportation of the infringing goods *in an unaltered state* or subject them to a different customs procedure, other than in exceptional circumstances." (emphasis added)

7.377 This sentence addresses the same basic problem as the fourth sentence of Article 46. It confirms that the state of the counterfeit trademark goods is the relevant consideration, although the obligation in the second sentence of Article 59 is less specific with respect to removal of the trademark, suggesting that "simple removal of the trademark" is an example of a means of altering the state of infringing goods. However, in the present dispute, the applicable obligation is found in the fourth sentence of Article 46, as incorporated by Article 59.

7.378 China argues that right-holders have a legal right to protection from goods that infringe their intellectual property, but not from unmarked goods that do not.[358]

7.379 The Panel notes that the fourth sentence of Article 46, by its specific terms, is not limited to an action to render goods non-infringing, which the simple removal of the trademark would achieve. Rather, the fourth sentence of Article 46 imposes an additional requirement beyond rendering the goods non-infringing in order to deter further acts of infringement with those goods. Therefore, it is insufficient, other than in exceptional cases, to show that goods that have already been found to be counterfeit are later unmarked. The release into the channels of commerce of such goods, while they may no longer infringe upon the exclusive rights in Article 16 of the TRIPS Agreement, will not comply with the requirement in the fourth sentence of Article 46, as incorporated by Article 59.

7.380 Turning to the measures at issue, the Panel observes that the procedure for seeking comment by right holders does not affect the state of the goods, nor is there any obligation to take right holder's comments into account. Therefore, it is irrelevant to the question whether the measures at issue provide for "simple removal of the trademark unlawfully affixed".

7.381 China alleges that auctions of goods confiscated by Customs are subject to a reserve price that ensures that infringers do not have the opportunity to purchase the seized goods at an unreasonably low cost and reaffix counterfeit marks.[359]

7.382 The Panel does not agree. As China itself stated in its rebuttal submission, "the very principle of trademark protection is that a trademark distinguishes a good and allows for a significant market premium".[360] The Panel points out that a counterfeit trademark is designed to obtain some or all of that economic premium. When the counterfeit trademark is removed, the value of the good is diminished and is less than its market value if it is resold with a counterfeit trademark reaffixed. In other words, it remains economically viable for the importer or a third party to purchase the goods at auction and reaffix the trademarks in order to infringe again, with the heightened risk of this occurring discussed at paragraph 7.374 above. In any case, there is no evidence that the prices established by

[358] China's rebuttal submission, para. 195.
[359] China's first oral statement, para. 77; first written submission, paras 170-171.
[360] China's rebuttal submission, para. 196.

the method used by China Customs are so high that it is no longer economically viable to purchase the goods and reaffix the trademarks.[361]

7.383 China argues that the measures at issue prevent the cheap return of the seized good to the infringer and, by ensuring that the infringers reap no economic benefits, effectively deter infringement.[362]

7.384 The Panel sees no reference to the original infringer in the relevant obligation or in the objective set out in Article 46. There is no reason to suppose that the text is aimed at deterring infringement by the importer only and not by other parties, such as purchasers at auction. The use of the word "release" into the channels of commerce does not imply such a limitation as the sentence reads "release into the channels of commerce" not "release to the importer".[363]

7.385 Therefore, the Panel considers that, in regard to counterfeit trademark goods, China's Customs measures provide that the simple removal of the trademark unlawfully affixed is sufficient to permit release of the goods into the channels of commerce.

7.386 The Panel does not conclude on this basis alone that the measures at issue are inconsistent with the requirement of the fourth sentence of Article 46, as incorporated by Article 59, because that sentence contains the phrase "other than in exceptional cases". This phrase, read in context, implies that "in exceptional cases" the simple removal of the trademark unlawfully affixed *may* be sufficient to permit release of the goods into the channels of commerce.

7.387 The United States, in response to a question, submits that the ordinary meaning of "exceptional" suggests 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 the 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".[364]

7.388 China, in response to the same question, submits that the ordinary meaning of "exceptional" includes "special", which suggests a qualitative test, and "unusual", which refers to frequency and suggests a quantitative test. An interpretation in terms of the set of circumstances, and an

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[361] The specific measures for the establishment of reserve prices in auctions of goods confiscated by Customs are set out in the Measures on Administration of Property Confiscated by Customs. These are internal measures of the General Administration of Customs formulated in accordance with the Customs Law, the Law on Administrative Penalty and the Auction Law in 2003: see Exhibit CHN-100. Article 18 of these Measures provides as follows:

> "A reserve price shall be set for the confiscated property authorized to be auctioned off. Should appraisal be required in accordance with relevant provisions of laws and regulations, a price assessment entity lawfully established shall be authorized to complete such appraisal. In the case that several auction enterprises bid for the right to auction, the bid prices shall be compared with the appraisal price and the highest one taken as the reserve price. In the case that there were no multiple bids for the right to auction, the reserve price shall be reasonably determined based on the appraisal price given by the price assessment entity." (footnote omitted) See mutually agreed translation no. 9.

[362] China's rebuttal submission, para. 218.

[363] As noted at paragraph 7.276 above, the use of the word "release" in Article 46 and, hence, as incorporated in Article 59, has a broader meaning than simply release to the importer.

[364] United States' response to Question No. 86.

interpretation in terms of the number of cases, are both consistent with the plain meaning of "exceptional cases".[365]

7.389 The Panel notes that the phrase "other than in exceptional cases", read in context, refers to a subset of the cases covered by the fourth sentence of Article 46, as incorporated by Article 59, namely, those cases in which a Member's competent border authorities permit the release of goods that have been found to be counterfeit trademark goods into the channels of commerce. The question is how to determine when any such case may be considered "exceptional".

7.390 The word "exceptional" may be defined as "of the nature of or forming an exception; unusual, out of the ordinary; special;"[366] This definition does not explain *in what way* a case must be different from other cases in order to be considered "exceptional" within the meaning of the fourth sentence of Article 46. Further, the question of *how* different a case must be from others is also a question of degree.

7.391 The Panel considers that the phrase "other than in exceptional cases", like the rest of the principle set out in the fourth sentence of Article 46, must be interpreted in light of the objective of that Article, namely, "to create an effective deterrent to infringement". There may well be cases in which the simple removal of the trademark prior to release of the goods into the channels of commerce would not lead to further infringement. For example, an innocent importer who has been deceived into buying a shipment of counterfeit goods, who has no means of recourse against the exporter and who has no means of reaffixing counterfeit trademarks to the goods, might constitute such a case.[367] However, such cases must be narrowly circumscribed in order to satisfy the description of "exceptional". Even when narrowly circumscribed, application of the relevant provision must be rare, lest the so-called exception become the rule, or at least ordinary.

7.392 The Panel does not consider that "exceptional cases" for the purposes of the fourth sentence of Article 46 may simply be demonstrated by a low rate of cases in which simple removal of the trademark is treated as sufficient to permit release of goods into the channels of commerce. Firstly, "exceptional cases" within the meaning of the fourth sentence of Article 46, as incorporated in Article 59, is not assessed in terms of a proportion of all cases of infringing goods seized at the border. Secondly, such an approach to goods that have already been found to be counterfeit trademark goods would amount to a margin of tolerance of further infringement that is not consistent with the objective of Article 46 of creating an effective deterrent.

7.393 Therefore, the Panel considers that, in regard to counterfeit trademark goods, China's Customs measures provide that the simple removal of the trademark unlawfully affixed is sufficient to permit release of the goods into the channels of commerce in more than just "exceptional cases".

7.394 For the above reasons, the Panel concludes that the Customs measures are inconsistent with Article 59 of the TRIPS Agreement, as it incorporates the principle set out in the *fourth* sentence of Article 46.

3. Conclusions with respect to the Customs measures

7.395 The Panel recalls its conclusions at paragraphs 7.231, 7.355 and 7.394 above that:

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[365] China's response to Question No. 86.

[366] *New Shorter Oxford English Dictionary* (1993).

[367] Without prejudice to the relevance of statements by individual participants in the negotiations, the Panel notes that China referred to this example in the records of the negotiation of the TRIPS Agreement: see its rebuttal submission at paras 211-213.

(a) Article 59 of the TRIPS Agreement is not applicable to the Customs measures insofar as those measures apply to goods destined for exportation;

(b) the United States has not established that the Customs measures are inconsistent with Article 59 of the TRIPS Agreement, as it incorporates the principles set out in the *first* sentence of Article 46 of the TRIPS Agreement; and

(c) the Customs measures are inconsistent with Article 59 of the TRIPS Agreement, as it incorporates the principle set out in the *fourth* sentence of Article 46 of the TRIPS Agreement.

C. CRIMINAL THRESHOLDS

1. Description of the measures at issue

(a) Introduction

7.396 This Section of the Panel's findings concerns criminal thresholds established by the following measures. China's **Criminal Law** was adopted by the National People's Congress in 1979, revised by the National People's Congress in 1997 and promulgated by Order of the President of the People's Republic of China in 1997. The Criminal Law is divided into two Parts: Part One, setting out "General Provisions", and Part Two, setting out "Specific Provisions". Part Two, Chapter III, provides for "Crimes of disrupting the order of the socialist market economy". Chapter III, Section 7, provides for "Crimes of infringing intellectual property rights" and comprises Articles 213 to 220, considered below.

7.397 The Interpretation of the Supreme People's Court and the Supreme People's Procuratorate Concerning Some Issues on the Specific Application of Law for Handling Criminal Cases of Infringement of Intellectual Property Rights (Interpretation No. 19 [2004] of the Supreme People's Court) ("**Judicial Interpretation No. 19 [2004]**") was adopted in November 2004 and entered into force in December 2004. It interprets certain terms used in Articles 213 to 219 of the Criminal Law and also deals with certain other matters.

7.398 The Interpretation of the Supreme People's Court and the Supreme People's Procuratorate Concerning Some Issues on the Specific Application of Law for Handling Criminal Cases of Infringement of Intellectual Property Rights – II (Interpretation No. 6 [2007] of the Supreme People's Court) ("**Judicial Interpretation No. 6 [2007]**") was adopted and entered into force in April 2007. It interprets certain terms used in Article 217 of the Criminal Law and also deals with certain other matters.

(b) Trademark provisions

(i) Use of a counterfeit trademark

7.399 Article 213 of the Criminal Law may be translated as follows:

> "Whoever, without permission from the owner of a registered trademark, uses a trademark which is identical with the registered trademark on the same kind of commodities shall, if *the circumstances are serious*, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined; if the circumstances are especially serious, the offender shall be

> sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined."[368] (emphasis added)

7.400 Article 1 of Judicial Interpretation No. 19 [2004] interprets the phrase "the circumstances are serious" in Article 213 of the Criminal Law and may be translated as follows:

> "Whoever, without permission from the owner of a registered trademark, uses a trademark which is identical with the registered trademark on the same kind of commodities, in any of the following circumstances which shall be deemed as 'the circumstances are serious' under Article 213 of the Criminal Law, shall be sentenced to fixed-term imprisonment of not more than three years or criminal detention for the crime of counterfeiting registered trademark, and shall also, or shall only, be fined:
>
> (1) the *illegal business operation volume* of not less than 50,000 Yuan[369] or the *amount of illegal gains* of not less than 30,000 Yuan;
>
> (2) in the case of counterfeiting two or more registered trademarks, the *illegal business operation volume* of not less than 30,000 Yuan or the *amount of illegal gains* of not less than 20,000 Yuan;
>
> (3) other serious circumstances." [370] (emphasis added)

7.401 Article 12(1) of Judicial Interpretation No. 19 [2004] defines the term "illegal business operation volume" and may be translated as follows:

> "The 'illegal business operation volume' herein means the value of the infringing products manufactured, stored, transported or sold during the course of commission of the act of infringing intellectual property rights. The value of the sold infringing products shall be calculated at the actual sale price. The value of the infringing products manufactured, stored, transported and unsold shall be calculated at the labelled price or at the average actual sales price of the infringing products as verified. If there is no labelled price on the infringing products or the actual sales price is unable to be verified, the price of the infringing products shall be calculated at the middle market price of the infringed products."[371]

7.402 Article 17 of Judicial Interpretation No. 30 [1998][372] defines the term "amount of illegal gains" and may be translated as follows:

> "The 'amount of illegal gains' in this Interpretation refers to the amount of profit obtained."[373]

(ii) Selling counterfeit trademark commodities

7.403 Article 214 of the Criminal Law may be translated as follows:

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[368] Mutually agreed translation no. 1.
[369] This corresponds to US$6,250 at average market exchange rates (¥8.013/US$ for 2004-2007).
[370] Mutually agreed translation no. 3.
[371] Mutually agreed translation no. 3.
[372] The Interpretation by the Supreme People's Court of Certain Questions Concerning the Specific Application of Law in Adjudicating Criminal Cases Involving Illegal Publications (Interpretation No. 30 [1998] of the Supreme People's Court) in Exhibits US-4 and CHN-3.
[373] Mutually agreed translation no. 4. The parties agree that this definition is applicable under Judicial Interpretation No. 19 [2004]: see United States' and China's respective responses to Question No. 3(a).

> "Whoever sells commodities, knowing[374] that such commodities bear counterfeit registered trademarks shall, if *the amount* of sales *is relatively large*, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined; if the amount of sales is huge, the offender shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined."[375] (emphasis added)

7.404 Article 2 of Judicial Interpretation No. 19 [2004] interpreted the phrase "the amount is relatively large" under Article 214 of the Criminal Law and may be translated as follows:

> "Whoever sells commodities, knowing that such commodities bear counterfeit registered trademarks, with the amount of sales of not less than 50,000 Yuan, this shall be deemed as 'the amount is relatively large' under Article 214 of the Criminal Law, and the offender shall be sentenced to fixed-term imprisonment of not more than three years or criminal detention for the crime of selling commodities bearing a counterfeit registered trademark, and shall also, or shall only, be fined."[376]

(iii) Forgery of trademarks and sale of forged trademarks

7.405 Article 215 of the Criminal Law may be translated as follows:

> "Whoever forges or, without the authorization of another person, makes representations of that person's registered trademarks, or sells representations of another person's registered trademark that are forged or made without authorization, shall, if *the circumstances are serious*, be sentenced to fixed-term imprisonment of not more than three years, criminal detention or public surveillance and shall also, or shall only, be fined; if the circumstances are especially serious, the offender shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined."[377] (emphasis added)

7.406 Article 3 of Judicial Interpretation No. 19 [2004] interpreted the phrase "the circumstances are serious" under Article 215 of the Criminal Law and may be translated as follows:

> "Whoever forges or, without the authorization of another person, makes representations of that person's registered trademarks or sells such representations, in any of the following circumstances which shall be deemed as 'the circumstances are serious' under Article 215 of the Criminal Law, shall be sentenced to fixed-term imprisonment of not more than three years, criminal detention or public surveillance for the crime of illegally producing or selling illegally made representations of the registered trademark, and shall also, or shall only, be fined:
>
> (1) forging or, without the authorization, making representations of the registered trademarks or selling such representations of not less than 20,000 pieces, or with the *illegal business operation volume* of not less than 50,000 Yuan, or the *amount of illegal gains* of not less than 30,000 Yuan;
>
> (2) forging or, without the authorization, making two or more kinds of representations of the registered trademarks or selling such representations of not less

[374] Note in mutually agreed translation: Please refer to Article 9 of the 2004 Judicial Interpretation.
[375] Mutually agreed translation no. 1.
[376] Mutually agreed translation no. 3.
[377] Mutually agreed translation no. 1.

than 10,000 *pieces*, or with the *illegal business operation volume* of not less than 30,000 Yuan, or the *amount of illegal gains* of not less than 20,000 Yuan;

(3) other serious circumstances."[378] (emphasis added)

7.407 Article 12(1) of Judicial Interpretation No. 19 [2004] defines the term "illegal business operation volume" as set out at paragraph 7.401 above. Article 17 of Judicial Interpretation No. 30 [1998] defines the term "amount of illegal gains" as set out at paragraph 7.402 above. Article 12(3) of Judicial Interpretation No. 19 [2004] defines the term "piece" and may be translated as follows:

"'Piece' (件)[379] under Article 3 herein means one representation with the entire trademark pattern."[380]

(c) Copyright provisions

(i) Criminal copyright infringement

7.408 Article 217 of the Criminal Law may be translated as follows:

"Whoever, for the purpose of making profits, commits any of the following acts of infringement of copyright shall, if *the amount of illegal gains is relatively large*, or if *there are other serious circumstances*, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined; if the amount of illegal gains is huge or if there are other especially serious circumstances, the offender shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined:

(1) reproducing [/][381] distributing written works, musical works, cinematographic works, television or video works, computer software or other works without permission of the copyright owner;

(2) publishing a book of which the exclusive right of publication is enjoyed by another person;

(3) reproducing [/] distributing audio recording [/] video recording made by another person without permission of the maker;

(4) making, selling[382] a work of fine art with the forged signature of another person."[383] (emphasis added)

7.409 Article 5 of Judicial Interpretation No. 19 [2004] interpreted the phrases "the amount of illegal gains is relatively large" and "there are other serious circumstances" under Article 217 of the Criminal Law and may be translated as follows:

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[378] Mutually agreed translation no. 3.

[379] Note in mutually agreed translation: in this context, piece (件) is a "measure word" for a trademark representation.

[380] Mutually agreed translation no. 3.

[381] The parties advised the Panel orally at the second substantive meeting that the use of "[/]" in mutually agreed translations nos. 1, 2 and 3 did not indicate disagreement but rather reflected the fact that the original version did not use the word "and".

[382] Note in mutually agreed translation: There is neither "and" or "or" between "making" and "selling", only a Chinese repetitive comma (、) or 顿号 which has no precise English equivalent.

[383] Mutually agreed translation no. 1.

> "Whoever, for the purpose of making profits, commits any of the acts of infringement of copyright under Article 217 of the Criminal Law, with the *amount of illegal gains* of not less than 30,000 Yuan which shall be deemed as 'the amount of illegal gains is relatively large'; in any of the following circumstances which shall be deemed as 'there are other serious circumstances', shall be sentenced to fixed-term imprisonment of not more than three years or criminal detention for the crime of infringement of copyright, and shall also, or shall only, be fined:
>
> (1) the *illegal business operation volume* of not less than 50,000 Yuan;
>
> (2) reproducing [/] distributing, without permission of the copyright owner, a written work, musical work, cinematographic work, television or other video works, computer software and other works of not less than 1,000[384] 张 (份)[385] in total;
>
> (3) other serious circumstances."[386] (emphasis added)

7.410 Article 12(1) of Judicial Interpretation No. 19 [2004] defines the term "illegal business operation volume" as set out at paragraph 7.401 above. Article 17 of Judicial Interpretation No. 30 [1998] defines the term "amount of illegal gains" as set out at paragraph 7.402 above.

7.411 Article 1 of Judicial Interpretation No. 6 [2007] re-interpreted the phrase "there are other serious circumstances" under Article 217 of the Criminal Law and may be translated as follows:

> "Whoever, for the purpose of making profits, reproduces [/] distributes, without permission of the copyright owner, a written work, musical work, cinematographic work, television or video works, computer software and other works of not less than 500 张 (份)[387] in total, [the offence] shall be deemed as 'there are other serious circumstances' under Article 217 of the Criminal Law …"[388]

7.412 The number "500" in this provision conflicts with the number "1000" in the earlier Judicial Interpretation. The number "500" therefore prevails by virtue of Article 7 of Judicial Interpretation No. 6 [2007], which may be translated as follows:

> "Where any previously promulgated judicial interpretation is in conflict with this Interpretation, this Interpretation shall prevail."[389]

(ii) Selling copyright-infringing reproductions

7.413 Article 218 of the Criminal Law may be translated as follows:

> "Whoever, for the purpose of making profits, sells infringing reproductions, knowing that such infringing reproductions are those stipulated in Article 217 of this Law shall, if *the amount of illegal gains is huge*, be sentenced to fixed-term imprisonment

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[384] The number "1000" has been superseded by "500": see paragraphs 7.411 and 7.412 below.

[385] Note in mutually agreed translation: 张 is a Chinese "measure word" broadly used to count flat things (like optical disks, pages, etc.) and 份 is a "measure word" used to count copies in general.

[386] Mutually agreed translation no. 3.

[387] Note in mutually agreed translation: 张 is a Chinese "measure word" broadly used to count flat things (like optical disks, pages, etc.) and 份 is a "measure word" used to count copies in general.

[388] Mutually agreed translation no. 2.

[389] Mutually agreed translation no. 2 and the parties' respective responses to Question No. 3(a).

> of not more than three years or criminal detention and shall also, or shall only, be fined."[390] (emphasis added)

7.414 Article 6 of Judicial Interpretation No. 19 [2004] interpreted the phrase "the amount of illegal gains is huge" under Article 218 of the Criminal Law and may be translated as follows:

> "Whoever, for the purpose of making profits, commits any of the acts as stipulated in Article 218 of the Criminal Law, where the amount of illegal gains is not less than 100,000 Yuan, this shall be deemed as 'the amount of illegal gains is huge', and the offender shall be sentenced to fixed-term imprisonment of not more than three years or criminal detention for the crime of selling infringing reproductions, and shall also, or shall only, be fined."[391]

(d) Crimes of infringing intellectual property rights committed by a unit

7.415 The Panel's terms of reference also refer to Article 220 of the Criminal Law on crimes under Articles 213 to 219 where committed by a unit. The United States has not requested relief in respect of that Article. Therefore, the Panel does not consider this aspect of the measure.

2. Construction of the measures at issue

(a) Introduction

7.416 The Panel notes that this claim challenges China's criminal measures "as such". The parties disagree on certain aspects of the measures at issue. The Panel is therefore obliged, in accordance with its mandate, to make an objective assessment of the meaning of the relevant provisions of those measures. The Panel recalls its observations at paragraph 7.28 above and confirms that it examines these measures solely for the purpose of determining their conformity with China's obligations under the TRIPS Agreement.

(b) Normative effect of the Judicial Interpretations

7.417 Under the 1982 Constitution of the People's Republic of China, the National People's Congress is the highest organ of State power and its permanent body is its Standing Committee. The National People's Congress and its Standing Committee exercise the legislative power of the State. The National People's Congress enacts and amends basic laws, such as the Criminal Law, whilst its Standing Committee enacts and amends other statutes.[392]

7.418 In 1981, the Standing Committee of the National People's Congress adopted a Resolution on Improving the Work of Interpreting the Law, in which it decided as follows:

> "Questions involving the specific application of laws and decrees in court trials shall be interpreted by the Supreme People's Court. Questions involving the specific application of laws and decrees in procuratorial work shall be interpreted by the Supreme People's Procuratorate."[393]

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[390] Mutually agreed translation no. 1.

[391] Mutually agreed translation no. 3.

[392] 1982 Constitution of the People's Republic of China, Articles 62 and 67, explained in China's WTO Trade Policy Review, Report by the Secretariat, WT/TPR/S/161, Chapter II(2), referenced in United States' first written submission, para. 22, set out in Exhibit US-16.

[393] 1981 Resolution of the Standing Committee of the National People's Congress on Improving the Work of Interpreting the Law, paragraph 2, in Exhibit US-13.

7.419 In 1997, the Supreme People's Court formulated Certain Provisions on Judicial Interpretation Work. In March 2007, it replaced these with new Provisions on Judicial Interpretation Work, which may be translated as follows:

> "Judicial interpretations issued by the Supreme People's Court shall have legal effect."[394]

7.420 In 1996 the Supreme People's Procuratorate formulated Provisional Provisions on Judicial Interpretation Work. In May 2006, it replaced these with Provisions on Judicial Interpretation Work, which may be translated as follows:

> "Judicial interpretations made by the Supreme People's Procuratorate have legal effect. People's procuratorates may use provisions of judicial interpretation in legal documents such as bills of indictment or protest."[395]

7.421 The Provisions of the Supreme People's Court on Judicial Interpretation Work and the Provisions of the Supreme People's Procuratorate on Judicial Interpretation Work both provide for the joint formulation of judicial interpretations by the Supreme People's Court and the Supreme People's Procuratorate when an issue involves both judicial and prosecutorial work.[396]

7.422 The United States submits that, in light of the above, the Judicial Interpretations at issue in this dispute are binding and have the force of law.[397]

7.423 China submits that the Judicial Interpretations are issued "in order to ensure a uniform understanding and application of the law".[398] China does not disagree with the United States' description of the legal basis and binding nature of the Judicial Interpretations at issue as set out in the United States' first written submission.[399] China confirms that if an illegal act does not meet one of the pertinent thresholds set out in the Judicial Interpretations at issue, prosecution of that act is legally impossible.[400]

7.424 In light of the above, the Panel finds that the Judicial Interpretations of the Articles of the Criminal Law at issue are binding and have the force of law.

(c) Thresholds under the Criminal Law in general

7.425 China informs the Panel that it employs thresholds across a range of commercial crimes, reflecting the significance of various illegal acts for overall public and economic order and China's prioritization of criminal enforcement, prosecution and judicial resources. China submits that the criminal thresholds for counterfeiting and piracy are reasonable and appropriate in the context of this legal structure and the other laws on commercial crimes.[401]

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[394] Provisions of the Supreme People's Court on Judicial Interpretation Work, Article 5, 法发 [2007] No. 12 in Exhibit US-14.

[395] Provisions of the Supreme People's Procuratorate on Judicial Interpretation Work, Article 5, 高检发研字 [2006] No. 4 in Exhibit US-15.

[396] Provisions of the Supreme People's Court on Judicial Interpretation Work (referred to in note 394 above), Article 7, and Provisions of the Supreme People's Procuratorate on Judicial Interpretation Work (referred to in note 395 above), Article 21.

[397] United States' first written submission, para. 24.

[398] China's first written submission, para. 22.

[399] China's response to Question No. 10, referencing paras 20-24 of that submission.

[400] China's response to Question No. 55.

[401] China's first written submission, paras 122-127.

7.426 The United States responds that what China chooses to do with its domestic non-IPR criminal thresholds has no bearing on the Panel's assessment of whether China meets its international obligations under the first sentence of Article 61 of the TRIPS Agreement.[402]

7.427 The Panel observes that Part One of the Criminal Law sets out general provisions. Within Part One, Chapter II, Section 1 provides for "Crimes and Criminal Responsibility". Article 13 defines a crime and may be translated *in fine* as follows:

> "However, if the circumstances are obviously minor and the harm done is not serious, the act shall not be considered a crime."[403]

7.428 China submits that, throughout the Criminal Law, the definitions of various crimes are accompanied by rules for determining at what point the particular proscribed conduct becomes so serious as to constitute a crime.[404] These are collated and issued in Prosecution Standards. In response to a question from the Panel, China indicated that most substantive provisions in Chapter III on economic crimes, Chapter V on property violation and Chapter VI, Section 9 on producing, selling and disseminating pornographic materials[405] are also subject to specific thresholds, such as those applicable to Articles 213, 214, 215, 217 and 218 of the Criminal Law that are at issue in this dispute.[406]

7.429 The Panel notes China's acknowledgement that a total of 11 crimes out of 117 crimes set out in these relevant Parts and this relevant Section of the Criminal Law are not subject to any specific threshold.[407] Therefore, whilst China may for internal policy reasons frequently use thresholds to define the point at which many classes of illegal act are considered serious enough to be criminalized, China's legal structure is capable of criminalizing certain acts without recourse to thresholds.

(d) Thresholds for conviction or aggravation

7.430 The Panel notes that some thresholds in the Criminal Law set minimum requirements for conviction ("conviction thresholds") whilst others set minimum requirements for higher penalties ("aggravation thresholds"). Most of the Articles at issue in this dispute include both. The conviction thresholds comprise "serious circumstances" in Articles 213 and 215, "relatively large amount of sales" in Article 214, "relatively large amount of illegal gains" or "other serious circumstances" in Article 217 and "huge amount of sales" in Article 218. The aggravation thresholds comprise "especially serious circumstances" in Articles 213, 215 and 217 and "huge amount of sales" in Article 214.

7.431 The United States only challenges the conviction thresholds as these render prosecution impossible in the absence of certain criteria. Therefore, the Panel does not consider the aggravation thresholds further.

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[402] United States' rebuttal submission, paras 100-102.
[403] Exhibit CHN-1.
[404] China's first written submission, para. 121.
[405] Crimes under Part Two, Chapter VI, Section 9 of the Criminal Law were addressed together with copyright crimes under Articles 217 and 218 in Judicial Interpretation No. 30 [1998] (referred to in note 372 above).
[406] See China's response to Question No. 57.
[407] China's response to Question No. 57.

(e) General provisions on inchoate crimes

7.432 China refers to certain general provisions of the Criminal Law that it alleges apply to the crimes of infringing intellectual property rights. These include Article 22 on preparation for a crime, and Article 23 on attempted crime, which may trigger criminal prosecution and penalties.[408]

7.433 The United States replied that the extent to which these general provisions on inchoate crimes can address evidence of *potential* infringement is beside the point, as the thresholds rule out criminal liability based on evidence of *actual* infringement.[409] In response to a question, the United States notes that neither the Criminal Law, Judicial Interpretation No. 19 [2004] nor Judicial Interpretation No. 6 [2007] contains any specific provisions concerning the offences of preparation or attempt relating to the completed crimes of trademark counterfeiting and copyright piracy.[410]

7.434 The Panel observes that Part One, Chapter II, Section 2 of the Criminal Law sets out three inchoate crimes of preparation for a crime, criminal attempt and discontinuation of a crime.[411] Article 22 may be translated as follows:

> "Preparation for a crime refers to the preparation of the instruments or the creation of the conditions for a crime.
>
> An offender who prepares for a crime may, in comparison with one who completes the crime, be given a lighter or mitigated punishment or be exempted from punishment."[412]

7.435 Article 23 may be translated, relevantly, as follows:

> "A criminal attempt refers to a case where an offender has already started to commit a crime but is prevented from completing it for reasons independent of his will.
>
> An offender who attempts to commit a crime may, in comparison with one who completes the crime, be given a lighter or mitigated punishment."[413]

7.436 The Panel notes that each of these Articles contains provisions that appear to be of general application and that relate explicitly to "a crime" (犯罪). The Articles to which China refers contain no express limitation to certain specific provisions of the Criminal Law. They form part of Chapter II on "Crimes" found in Part One on "General Provisions", which also sets out the aim, basic principles and scope of application of the Criminal Law in Chapter I, provisions on punishments in Chapter III and the concrete application of punishments in Chapter IV. On their face, there is no reason to suppose that Articles 22 and 23 do not apply to the crimes of infringing intellectual property rights in Articles 213, 214, 215, 217 and 218 of the Criminal Law. This reading is confirmed by examples of judicial decisions submitted by China that show courts applying Articles 22 and 23 of the Criminal Law in cases of crimes of infringing intellectual property rights.[414]

7.437 The Panel also notes that China has referred to the offences of preparation for a crime and attempted crime to show that packaging and product components can be taken into account in

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[408] China's first written submission, paras 35-37; rebuttal submission, paras 36-41.
[409] United States' second oral statement, para. 34.
[410] United States' response to Question No. 8.
[411] The parties have not referred to Article 24 on discontinuation of a crime.
[412] Exhibit CHN-1.
[413] Exhibit CHN-1.
[414] The United States refers to these judicial decisions and appears to acknowledge that the Articles were applied in these cases: see United States' response to Question No. 8.

determining the availability of criminal procedures to enforce the substantive crimes of infringing intellectual property rights. However, the Panel notes that China has not alleged that the offences of preparation and attempt render activities falling below the thresholds in Articles 213 to 220 generally subject to criminal prosecution.

(f) General provisions on joint crimes

7.438 Japan, supported by the European Communities, argues that quantitative thresholds would not capture counterfeiting activities of limited value or smaller quantities which are on a "commercial scale" due to their professional organization or the systematic cooperation with other persons.[415] Mexico further submits that small scale activity is "clearly meaningful" as it contributes to the chain of infringement.[416]

7.439 In response to these third party submissions, China refers to Articles 25, 26 and 27 of the Criminal Law on joint liability, criminal groups and accomplices to show that the Criminal Law recognizes certain non-quantitative factors, such as evidence of collaboration between infringers.[417] China submits that they apply to the crimes of infringing intellectual property rights in Articles 213, 214, 215, 217 and 218 of the Criminal Law.[418]

7.440 The United States replies that this argument is of no consequence with respect to infringers that work alone. All the evidence demonstrates is that below-the-threshold activity could be captured if it existed as part of an above-the-threshold activity.[419]

7.441 The Panel observes that Part One, Chapter II, Section 3 of the Criminal Law provides for "Joint crimes". It sets out five provisions. Article 25 may be translated, relevantly, as follows:

> "A joint crime refers to an intentional crime committed by two or more persons jointly. …" [420]

7.442 Article 26 may be translated as follows:

> "A principal criminal refers to any person who organizes and leads a criminal group in carrying out criminal activities or plays a principal role in a joint crime.
>
> A criminal group refers to a relatively stable criminal organization formed by three or more persons for the purpose of committing crimes jointly.
>
> Any ringleader who organizes or leads a criminal group shall be punished on the basis of all the crimes that the criminal group has committed.
>
> Any principal criminal not included in paragraph 3 shall be punished on the basis of all the crimes that he participates in or that he organizes or directs." [421]

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[415] Japan's third party written submission, para. 17; European Communities' third party oral statement, para. 10.

[416] Mexico's third party oral statement, paras 6-7.

[417] China's rebuttal submission, paras 42-46.

[418] China's rebuttal submission, para. 33.

[419] United States' second oral statement, para. 35, referring to the application of the joint crime provision in one case (CHN-12), cited by China in its rebuttal submission, para. 44, and its response to Question No. 56.

[420] Exhibit CHN-1.

[421] Exhibit CHN-1.

7.443 Article 27 may be translated as follows:

> "An accomplice refers to any person who plays a secondary or auxiliary role in a joint crime.
>
> An accomplice shall be given a lighter or mitigated punishment or be exempted from punishment."[422]

7.444 The Panel observes that Articles 26 and 27 are limited to "joint crimes" which are defined by Article 25 as "intentional crimes". On their face, there is no reason to suppose that Articles 25, 26 and 27 do not apply to the crimes of infringing intellectual property rights in Articles 213, 214, 215, 217 and 218 of the Criminal Law. Several judicial decisions submitted by China show one or more of these Articles being cited in relation to Article 213.[423] The decisions show that the relevant factors were aggregated among several offenders in order to reach a criminal threshold.

7.445 China submitted that it may apply criminal procedures and penalties, on the basis of joint crimes and criminal group membership, to infringers that would not otherwise reach the criminal thresholds of the substantive criminal laws.[424] However, in response to a question, China confirmed that the numerical thresholds under Articles 213, 214, 215, 217 and 218 of the Criminal Law apply to joint crimes under Articles 25, 26 and 27 of the Criminal Law.[425]

7.446 Therefore, the Panel considers that the concept of joint crimes is relevant to the capacity of the Criminal Law to take into account an element of organization among different offenders. However, it does not alter the lack of criminal procedures and penalties for acts of infringement falling below the thresholds in Articles 213 to 220.

(g) Specific features of the thresholds for crimes of infringing intellectual property rights

(i) Profit-making purpose

7.447 The United States submits that the thresholds "all require proof of an intention to make a financial gain or profit".[426]

7.448 The Panel observes that, as regards the trademark offences, two of the thresholds under Article 213 of the Criminal Law, as interpreted by Article 1 of Judicial Interpretation No. 19 [2004], are set in terms of "illegal business operation volume" and "illegal gains" (i.e. amount of profits obtained[427]). Article 214 of the Criminal Law applies to the act of selling, and the corresponding threshold in Article 2 of Judicial Interpretation No. 19 [2004] is set in terms of "amount of sales". These all imply a purpose of obtaining financial gain or making profits. Article 215 of the Criminal Law does not expressly refer to a profit-making purpose.

7.449 As regards the copyright offences, both Articles 217 and 218 of the Criminal Law expressly refer to acts carried out for "the purpose of making profits". This language is reiterated in the corresponding interpretations in Articles 5 and 6 of Judicial Interpretation No. 19 [2004] and Article 1 of Judicial Interpretation No. 6 [2007].

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[422] Exhibit CHN-1.
[423] Exhibits CHN-4, CHN-6, CHN-9, CHN-12, CHN-13 and CHN-16.
[424] China's rebuttal submission, para. 46.
[425] China's response to Question No. 56.
[426] United States' response to Question No. 59.
[427] See paragraph 7.402 above.

7.450 Therefore, Articles 213, 214, 217 and 218 of the Criminal Law take account of at least one qualitative factor in conjunction with the numerical thresholds. In this dispute, the United States does not challenge this aspect of the measure.[428]

(ii) Alternative thresholds

7.451 The parties agree that the thresholds refer to a range of different factors, comprising illegal business operation volume, amount of illegal gains (or profits), amount of sales, number of "copies" and "other serious circumstances". The first three are, by their own terms, indicators of business activity and are either expressly, or impliedly, linked to selling, in other words, commercial activity. The first four are all expressed in numerical terms.

7.452 China emphasizes that the multiple standards set forth in each of Articles 213, 215 and 217 of the Criminal Law are all alternatives.[429] The United States agrees and claims that application of any or all of the alternative thresholds leaves many acts of commercial scale piracy and counterfeiting immune from criminal prosecution or conviction.[430]

7.453 The Panel observes that Articles 213 and 215 of the Criminal Law each contain a single threshold. However, these are interpreted by Articles 1 and 3 of Judicial Interpretation No. 19 [2004] in terms of a series of distinct circumstances. It is clear from the text of Articles 1 and 3 that each of these circumstances applies in the alternative as Articles 1 and 3 each provide that the conviction threshold under the relevant Article of the Criminal Law shall be deemed satisfied in "any of the following circumstances".

7.454 The Panel observes that Article 217 of the Criminal Law contains two conviction thresholds namely, "the amount of illegal gains" and "other serious circumstances". The text of Article 217 makes it clear that these are alternatives to each other by the use of the word "or". Both of these thresholds are interpreted by Article 5 of Judicial Interpretation No. 19 [2004]: the former in terms of a numerical amount and the latter in terms of a series of distinct circumstances. It is clear from the text of Article 5 that each of these circumstances applies in the alternative as Article 5 provides that the conviction threshold of "other serious circumstances" under Article 217 of the Criminal Law shall be deemed satisfied in "any of the following circumstances". Satisfaction of any one of those circumstances, or "the amount of illegal gains" threshold, shall be deemed to satisfy the relevant conviction threshold.

7.455 This means, for example, that the use of a counterfeit trademark where the illegal business operation volume is, say, ¥40,000 (i.e. below the threshold of ¥50,000 applicable under Article 213 of the Criminal Law) is not exempt from criminal prosecution unless the amount of illegal gains, the number of registered trademarks involved in the offence, and other circumstances all fail to fulfil the other applicable thresholds. However, where an act of infringement falls below all the applicable thresholds, criminal prosecution and penalties are not available.

7.456 It is not disputed that the crimes of selling under Articles 214 and 218 of the Criminal Law each contain only one conviction threshold. Therefore, those thresholds do not apply as alternatives.

(iii) Cumulative calculation over time

7.457 China submits that the thresholds are calculated over a prolonged period of time. This is reflected in the general limitation period for crimes of a continuous nature, and the specific provision

[428] See paragraphs 7.659 and 7.660 below.
[429] China's first written submission, paras 33-34.
[430] United States' rebuttal submission, para. 77.

on cumulative calculation in Article 12(2) of Judicial Interpretation No. 19 [2004]. China asserts that this principle also applies to thresholds in terms of numbers of copies. Therefore, the thresholds for crimes infringing intellectual property rights can be calculated over the entire duration of the infringing activity.[431]

7.458 The United States notes that Article 12(2) of Judicial Interpretation No. 19 [2004] is subject to a condition, namely, that no administrative penalty or criminal punishment has been imposed.[432] China responds that administrative enforcement forestalls the commission of the crime.[433]

7.459 The Panel observes that Part One, Chapter IV, Section 8 of the Criminal Law sets out limitation periods for the prosecution of crimes. Article 87 provides for limitation periods calculated according to the maximum punishment for the relevant crime, of which the shortest period is five years. Article 89 of the Criminal Law provides that the limitation period for a criminal act of a continual or continuous nature shall be counted from the date the criminal act is *terminated*.[434]

7.460 The Panel also notes that Article 12(2) of Judicial Interpretation No. 19 [2004] may be translated as follows:

> "In the case of infringement committed for [*sic*] more than once for which no administrative penalty or criminal punishment has been imposed, the illegal business operation volume, the amount of illegal gains, or the amount of sales shall be calculated accumulatively."[435]

7.461 These provisions show that the thresholds may take into account multiple acts of infringement, and not simply the income, profits, sales or number of copies in a single transaction or at a single point in time. This point is confirmed by examples of judicial decisions submitted by China showing that, when calculating whether thresholds had been met, courts have taken into account infringements during periods of up to five years.[436] An administrative penalty for a particular act of infringement excludes that act from the cumulative calculation of the "illegal business operation volume", "the amount of illegal gains", or "the amount of sales" thresholds and, hence, from criminal procedures and penalties.

(iv) Calculation of illegal business operation volume – goods

7.462 China submits that the calculation of "illegal business operation volume" thresholds is not limited to goods in a single location at the same point in time. Rather, the threshold covers all infringing goods associated with the infringer, even those no longer in the infringer's possession.[437]

7.463 The United States acknowledges that, in certain circumstances, the definition of "illegal business operation volume" appears to permit an infringer's goods on different premises to be taken into account in calculation of the threshold.[438]

7.464 The Panel observes that three conviction thresholds under Articles 213, 215 and 217 of the Criminal Law are set in terms of "illegal business operation volume". The definition of "illegal

[431] China's first written submission, paras 30-32; rebuttal submission, paras 26-27.
[432] United States' response to Question No. 2(a).
[433] China's rebuttal submission, paras 28-29.
[434] Exhibit CHN-1.
[435] Mutually agreed translation no. 3.
[436] Exhibits CHN-4, CHN-13 and CHN-14.
[437] China's first written submission, paras 23-24.
[438] United States' response to Question No. 2(a).

business operation volume" in Article 12(1) of Judicial Interpretation No. 19 [2004][439] refers to infringing products "manufactured, stored, transported or sold" during the course of commission of the act of infringing intellectual property rights. On its face, this does not restrict the calculation of these thresholds to the value of goods seized in a single place at the same point in time. This interpretation is confirmed by examples of judicial decisions submitted by China showing that courts have taken into account the value of goods already sold[440], as well as of goods seized at different locations[441] when calculating the illegal business operation volume.

(v) Calculation of illegal business operation volume – price

7.465 The United States claimed that the calculation methodology required for "illegal business operation volume" was based on the prices of infringing goods, not the value of legitimate non-infringing goods.[442]

7.466 China responded that the calculation methodology is based on the actual, labelled or average sales price of the infringing goods but, where this cannot be determined, the price will be calculated based on the average market price of the infringed, i.e. genuine, goods.[443] In response to a question from the Panel, China agreed that the price of the genuine goods is used as a last resort.[444]

7.467 The Panel observes that three conviction thresholds under Articles 213, 215 and 217 of the Criminal Law are set in terms of "illegal business operation volume", which can be calculated by alternative methods. Ultimately, the parties agree that, in accordance with the definition of "illegal business operation volume" in Article 12(1) of Judicial Interpretation No. 19 [2004][445], the primary method of calculation of those thresholds is based on the actual price at which *infringing* goods were sold or labelled or, if unsold, the average actual sales price of the *infringing* products as verified. It is only where there is no labelled price or the actual sales price is unable to be verified that the illegal business operation volume is calculated according to the "middle" market price of the *infringed* products. In other words, the threshold primarily relates to the value of the counterfeit trademark or copyright infringing goods but may, as a last resort, relate to the value of the genuine products.

7.468 It is not disputed that the value of the counterfeit trademark goods or copyright infringing goods will be less than the value of the corresponding genuine goods. This has the effect of making the illegal business operation threshold harder to satisfy in those cases where the price of the genuine goods is not used. The number of cases that will fall below the thresholds is therefore greater than if the price of the infringed goods is used in all cases.

(vi) Number of goods and prices

7.469 China also submits that the illegal business operation threshold, in particular, is a flexible standard in its own right because it takes into account both the number and the value of infringing articles.[446] The United States does not comment.

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[439] Set out at paragraph 7.401 above.
[440] Exhibits CHN-4, CHN-5 and CHN-6.
[441] Exhibit CHN-7.
[442] United States' first written submission, para. 119, relying on a translation in Exhibit US-2 that referred *in fine* to "products produced by infringing on intellectual property rights" rather than "the infringed products".
[443] China's first written submission, para. 28.
[444] China's response to Question No. 2(c).
[445] Set out at paragraph 7.401 above.
[446] China's rebuttal submission, paras 23-24.

7.470 The Panel observes that, in accordance with the definition of "illegal business operation volume" in Article 12(1) of Judicial Interpretation No. 19 [2004][447], these thresholds are calculated in terms of the price of goods. Naturally, the number of goods required to meet the threshold is inversely proportional to the value of those goods. Therefore, the threshold is flexible enough to capture a small number of high-value goods or a large number of low-value goods. However, where the number of goods multiplied by the value of the goods is less than the threshold and not captured by any alternative applicable threshold, no criminal procedures and penalties will apply.

(vii) Residual thresholds

7.471 The parties initially did not address another threshold, that of "other serious circumstances" applicable under Articles 213, 215 and 217 of the Criminal Law.

7.472 In response to a question from the Panel for clarification of the meaning of these thresholds, the United States noted a case in which a prosecutor had invoked the similarly undefined aggravation threshold of "other especially serious circumstances" under Article 1 of Judicial Interpretation No. 19 [2004]. That prosecutor had unsuccessfully cited "serious effects in both domestic and international society".[448]

7.473 In response to the same question, China explained that the inclusion of "other serious circumstances" was a legislative device that preserves legal flexibility for courts and for the future development of laws. The provisions allows a court to determine that a particular act, while not meeting the other defined thresholds, is comparable and equivalent to those thresholds and therefore deserves to be subject to criminal penalties. China was unable in the time available to provide specific examples of cases in which this threshold had been used.[449]

7.474 The Panel observes that, on the face of the measures at issue, one of the thresholds applicable to three crimes infringing intellectual property rights is a residual category of "other serious circumstances". In the case of Articles 213 and 215 of the Criminal Law, this threshold only appears in the text of Judicial Interpretation No. 19 [2004]. In the case of Article 217 of the Criminal Law, this threshold actually appears in the text of the Article itself, but is later defined in terms of two specific thresholds plus an identically worded residual category of "other serious circumstances". This bears out China's explanation that this threshold is a legislative device that allows for the future development of laws. However, it is not alleged that any other thresholds have yet been devised beyond those set out in this Report.

7.475 Moreover, it is not alleged that the courts or prosecutors would treat all infringing acts that fall below the numerical thresholds as criminal acts by virtue of this residual threshold. China confirms that if an illegal act does not meet one of the pertinent thresholds set out in the Judicial Interpretations at issue, prosecution of that act is legally impossible.[450] China also confirms that these residual thresholds apply to other acts that are "comparable and equivalent" to the defined thresholds. Therefore, these residual thresholds do not significantly alter the legal position but rather help define the class of trademark- and copyright-infringing acts that are not treated as criminal.

(viii) Administrative enforcement

7.476 China draws the Panel's attention to its system of administrative enforcement of intellectual property infringement that operates separately from its criminal enforcement system. It informs the

[447] Set out at paragraph 7.401 above.
[448] United States' response to Question No. 9, citing Exhibit US-61.
[449] China's response to Questions Nos. 9 and 55; rebuttal submission, para. 22.
[450] See paragraphs 7.423 and 7.455 above.

Panel that in China infringement on *any scale* is subject to administrative enforcement. Public security authorities tend to focus more on infringement above the criminal thresholds, and copyright and commerce administrative authorities are more likely to target low-scale infringement.[451]

7.477 The United States responds that only criminal procedures and penalties can fulfil the obligations in Article 61 of the TRIPS Agreement. Administrative enforcement is not a substitute for criminal enforcement.[452]

7.478 The Panel notes that administrative sanctions, including fines, are available for intellectual property infringement falling below the criminal thresholds in China. Therefore, the thresholds do not create a "safe harbour". However, neither party to the dispute[453] argues that administrative enforcement may fulfil the obligations on criminal procedures and remedies set out in Article 61 of the TRIPS Agreement. Therefore, the Panel does not consider this issue further.

(h) Conclusion regarding construction of the measures at issue

7.479 For the above reasons, the Panel concludes that, whilst the structure of the thresholds and the method of calculation of some of them can take account of various circumstances, acts of trademark and copyright infringement falling below *all* the applicable thresholds are not subject to criminal procedures and penalties. The Panel will now consider whether any of those acts of infringement constitute "wilful trademark counterfeiting or copyright piracy on a commercial scale" within the meaning of Article 61 of the TRIPS Agreement.

3. Claim under the first sentence of Article 61 of the TRIPS Agreement

(a) Main arguments of the parties

7.480 The United States submits that 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.[454] Later, it clarified that the concept of "commercial scale" referred to counterfeiting or piracy that reach a certain extent or magnitude with a link to the marketplace. Whether a particular counterfeiting or piracy activity is "on a commercial scale" will depend on the facts and circumstances surrounding that activity. Relevant factors would include 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.[455] Some activity would be so trivial or of a *de minimis* character so as *not* to be "on a commercial scale" in some circumstances, such as occasional infringing acts of a purely personal nature carried out by consumers, or the sale of trivial volumes for trivial amounts (i.e., the sale of one copy for ¥1) unless there are circumstances indicating to the contrary.[456]

7.481 China responds that "commercial scale" refers to a significant magnitude of infringement activity. This is a broad standard, subject to national discretion and local conditions.[457] The United States fails to interpret "commercial scale" as a single term and its interpretation reads the word

[451] China's first written submission, paras 39-43.
[452] United States' rebuttal submission, paras 116-119.
[453] Contrast Brazil's third party written submission, paras 39-42.
[454] United States' first written submission, para. 110.
[455] United States' response to Question No. 59.
[456] United States' response to Question No. 60.
[457] China's first written submission, paras 64 and 117; China's first oral statement, para. 30.

"scale" completely out of the definition.[458] The context of Articles 1.1 and 41.5 of the TRIPS Agreement shows that Members retain considerable discretion with respect to law enforcement, and that the ability to define the standards of Article 61 is reserved for Members.[459] Later, it clarified that while these Articles did not provide an absolute defence against the substantive obligation of Article 61, they did provide relevant context and counselled strongly against interpretations of Article 61 in ways that would be inconsistent with China's legal system and would require the diversion of enforcement resources.[460] The negotiating record of the TRIPS Agreement, as well as subsequent actions of Members show that they understood "commercial scale" to impose only a high and broad standard which only covered significant infringement activity.[461]

7.482 The United States claims that China's criminal thresholds require authorities to disregard other indicia of commercial scale counterfeiting and piracy from physical evidence to consideration of the impact the piracy or counterfeiting has on the commercial marketplace and by extension, right holders.[462] The United States argues that a range of quantitative and qualitative factors should be taken into account to ensure all "commercial scale" activities are subject to Article 61.[463]

7.483 China responds that Chinese courts do consider semi-finished or unfinished products, and that these are evidence of preparation and attempt, as well as of substantive crimes.[464] Evidentiary procedures and impact on the right holder are irrelevant to Article 61 of the TRIPS Agreement.[465] The Criminal Law also addresses organizational elements of crimes in provisions on vicarious liability.[466]

(b) Main arguments of third parties

7.484 Argentina argues that China's measures do not appear to be inconsistent with Article 61 of the TRIPS Agreement, as Article 1.1 provided China with the flexibility to implement enforcement provisions in a way compatible with its existing constitutional and regulatory framework.[467]

7.485 Australia argues that "commercial scale" encompasses any act or series of acts of trademark counterfeiting or copyright piracy that adversely affects the financial rewards available to a right holder within a Member territory and that the ordinary meaning of the word "scale" incorporates the notion of a comparative assessment. Whether an individual case is on a commercial scale can only be determined case-by-case, taking account of all relevant circumstances, including the potential impact of digitally-based technologies.[468] This can include infringement activities with no financial advantage for the infringer, which nevertheless have substantial prejudicial impact on the right holder because of the availability of infringing material on digital networks.[469]

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[458] China's first written submission, paras 67-71, China's first oral statement, paras 26-27.
[459] China's first written submission, paras 90, 92 and 98-101.
[460] China's second written submission, paras 102-107.
[461] China's first written submission, paras 104-108 and 109-116; China's second written submission, paras 116-134.
[462] United States' first written submission, paras 143-150.
[463] United States' rebuttal submission, para. 38.
[464] China's first written submission paras 35-37; rebuttal submission, para. 32.
[465] China's first written submission, paras 141 and 139.
[466] China's rebuttal submission, paras 42-46.
[467] Argentina's third party written submission, paras 20 and 23.
[468] Australia's third party written submission, paras 18-19, supporting the definition suggested in the United States' first written submission, para. 110.
[469] Australia's third party written submission, para. 16, Australia's response to Third Party Question No. 6.

7.486 Brazil argues that an interpretation of "commercial scale" must give meaning to both terms in this expression, which combine "order of magnitude" with the purpose of obtaining financial gains. Therefore, Brazil considers that Article 61 establishes a two-pronged minimum standard that requires Members to provide for criminal procedures and penalties at least for wilful trademark and copyright infringements that involve profit-seeking motivation and significant amounts of infringing goods.[470]

7.487 Canada argues that China's authorities are precluded from applying criminal sanctions in many cases of wilful trademark counterfeiting or copyright piracy on a commercial scale because China's thresholds are arbitrary, too high and inflexible. The concept of "commercial scale" includes different factors. It relates to more than just industrial production and includes cases of wilful trademark counterfeiting and copyright piracy undertaken on sufficient scale to constitute the pursuit of profit or the carrying out of a business. This is a qualitative test and requires discretion in order to consider the circumstances of a given case. While negligible volumes of counterfeit would probably not qualify, the wilful reproduction of hundreds of pirated copies for the equivalent value of thousands of dollars in sales revenue would, by any objective measure, be infringing on a commercial scale. This would be especially true in China where annual GDP per capita is just US$2,500 and 57 million people earn less than US$125 per year. While Article 61 does not require prosecution of each case of wilful trademark counterfeiting and copyright piracy on a commercial scale, it does require Members to be in a position to do so, when circumstances merit the exercise of prosecutorial discretion.[471]

7.488 The European Communities argues that Article 61 singles out two types of infringements because they have a particular potential of harming right holders. Therefore, "on a commercial scale" must comprise all activities with a particular potential for harm which results from them pertaining to a business or profit generation. Quantitative thresholds alone are not enough to capture aspects of professional organization or systematic cooperation. In order to capture all infringements on a commercial scale, criminal enforcement authorities must be able to take into account additional factors such as indications of business organization or profit orientation of an activity.[472] The European Communities further argues that, because it provides for criminal procedures and penalties "to be applied", the first sentence of Article 61 obliges Members not just to criminalize, but also to prosecute the activities mentioned therein.[473]

7.489 Japan argues that while quantitative thresholds could identify many instances of "commercial scale" counterfeiting they would not capture counterfeiting activities of limited value or smaller quantities which are on a "commercial scale" due to additional circumstances, such as their professional organization or easy repetition. Mere quantification of "commercial scale" does not capture all instances of commercial scale counterfeiting, and additional qualitative elements need to be taken into account in order to consider such organizational characteristics of an activity.[474]

7.490 Korea argues that China's thresholds arbitrarily carve out certain IPR crimes from the possibility of criminal sanction and are therefore inconsistent with the TRIPS Agreement. "Commercial scale" represents a level of magnitude that is realized by operating or maintaining a business activity, large or small, for the purpose of gaining financial return through IPR infringement in a somewhat systematic fashion. Therefore, anybody engaging in a business activity by infringing

[470] Brazil's third party written submission, paras 35-38
[471] Canada's third party written submission, paras 4-8 and 11.
[472] European Communities' third party oral statement, paras 10 and 14.
[473] European Communities' third party written submission, para. 10-11; European Communities' response to Third Party Question No. 10,
[474] Japan's third party written submission, paras 17 and 30; Japan's third party oral statement, para. 13.

IPRs and realizing a financial return, regardless of the alleged amount at issue, should be regarded as violating IPRs on a "commercial scale".[475]

7.491 Mexico submits that the concept of "commercial scale" encompasses activities that go beyond casual or occasional infringements that are not made for the purpose of generating revenue. In that context, the word "scale" is not necessarily bound to conditions of magnitude, but alternatively to that of quality. Mexico further submits that small scale activity is "clearly meaningful" as it contributes to the chain of infringement.[476]

7.492 Chinese Taipei submits that "commercial scale" is an abstract legal concept that involves multiple factors of local circumstances, such as nature of the infringed rights, value and price in the market, motive and purpose of act, method and scale of infringement, damage caused, profit gained, cultural background, advancement of modern technology and living standards, that need to be considered on a case-by-case basis.[477]

7.493 Thailand argues that, as there is no definition of "commercial scale" in the TRIPS Agreement, this constitutes a built-in flexibility recognizing the different legal systems of Members. Every Member can adopt the interpretation it deems appropriate.[478]

(c) Consideration by the Panel

(i) Nature of the claim

7.494 The United States' claim relates to cases of wilful trademark counterfeiting and copyright piracy in respect of which China does not provide for criminal procedures and penalties to be applied but which the United States claims are "on a commercial scale".[479] The claim is based on two alleged "fundamental problems" referred to in this Report as the two limbs of this claim. The first limb concerns the level and method of calculation of the thresholds. By specifying certain levels, the thresholds allegedly eliminate whole classes of counterfeiting and piracy from risk of criminal prosecution and conviction.[480] The second limb concerns the limited set of numerical tests in the thresholds. By focussing solely on these tests, the thresholds allegedly require law enforcement officials to disregard other indicia of counterfeiting and piracy.[481]

7.495 The Panel notes that the first limb of the claim addresses the numbers specified in the numerical tests, and the way in which some of them are calculated, in order to show that the thresholds are too high. These are quantitative issues. The second limb addresses certain factors that the numerical tests do not take into account. These are qualitative issues. Neither limb is a broad claim that numerical thresholds cannot capture all cases "on a commercial scale". In response to the Panel's requests for clarification of the claim after both the first and the second substantive meetings, the United States clarified that it did not object to the use of numerical thresholds *per se*. [482]

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[475] Korea's third party written submission, paras 20 and 27; Korea's third party oral statement, para. 6.
[476] Mexico's third party written submission, paras 10; Mexico's third party oral statement, paras 6-7.
[477] Chinese Taipei's third party written submission, para. 21; Chinese Taipei's third party oral statement, para. 11.
[478] Thailand's third party oral statement, para. 3.
[479] United States' first written submission, paras 116 and 143.
[480] United States' first written submission, para. 112; rebuttal submission, para. 74.
[481] United States' first oral statement, para. 36; first oral statement (closing statement), para. 16.
[482] United States' responses to Questions Nos. 25 and 54. It seems pertinent to note that during the negotiations of the terms of China's accession to the WTO, some members of the Working Party took a similar position. In particular, they expressed concerns that the monetary thresholds were very high and seldom met. They considered that those thresholds should be lowered: see the Working Party Report, para. 304. China

Accordingly, the Panel is not asked to consider whether numerical thresholds, as a matter of principle, can implement an obligation in terms of cases "on a commercial scale".

7.496 Therefore, in its assessment of this claim, the Panel will proceed as follows:

(a) with respect to the first limb of the claim, the Panel will assess whether the *levels* in China's thresholds are too high to capture all cases on a commercial scale; and

(b) with respect to the second limb of the claim, the Panel will assess whether the *other factors* raised by the United States can be taken into account by China's thresholds to capture all cases on a commercial scale and, if not, whether this is a TRIPS requirement.

(ii) Procedural issues

7.497 China argues that the United States bears "a significantly higher burden [of proof] than it would normally encounter" because this claim concerns criminal law matters. China argues that the Panel should treat sovereign jurisdiction over police powers as a powerful default norm, departure from which can be authorized only in light of explicit and unequivocal consent of State parties.[483] China later clarified that it was not referring to a factual burden of proof but rather to the inability of the United States to provide the evidence to support its legal interpretation of Article 61 of the TRIPS Agreement.[484] China also argues for the application of the "interpretative canon" of *in dubio mitius* which, it submits, has a particular justification in the realm of criminal law.[485]

7.498 The United States responds that the fact that Article 61 of the TRIPS Agreement touches on criminal law does not change the provisions of Article 3.2 of the DSU or the customary rules of treaty interpretation reflected in the Vienna Convention on the Law of Treaties ("Vienna Convention").[486] In this dispute, the meaning of "commercial scale" is reached through the general rule of interpretation in Article 31 of the Vienna Convention. There is no "doubt" which is a precondition of reliance on the concept of *in dubio mitius*.[487]

7.499 The Panel notes that this claim is brought under Article 61 of the TRIPS Agreement, which concerns criminal procedures and penalties.[488] Article 64.1 of that Agreement provides that:

> "The provisions of Articles XXII and XXIII of GATT 1994 as elaborated and applied by the Dispute Settlement Understanding shall apply to consultations and the settlement of disputes under this Agreement except as otherwise specifically provided herein."

7.500 The application of the rules and procedures of the DSU to the settlement of disputes under the TRIPS Agreement is confirmed by Article 1.1 of the DSU, in conjunction with Appendix 1 of the DSU which lists the TRIPS Agreement as a "covered agreement". In accordance with Article 3.2 of the DSU, the Panel applies "the customary rules of interpretation of public international law" to its task of interpreting the TRIPS Agreement in this dispute. The general rule of interpretation,

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subsequently reduced certain thresholds with the adoption of Judicial Interpretation No. 19 [2004]: see United States' first written submission, para. 27.

[483] China's first written submission, paras 49-59.

[484] China's first oral statement (closing statement), paras 4-7.

[485] China's rebuttal submission, paras 51-56.

[486] United States' rebuttal submission, paras 63-67.

[487] United States' rebuttal submission, para. 68.

[488] Despite use of the word "remedies" in the second and third sentences, it seems clear that criminal sanctions are "penalties".

expressed in Article 31 of the Vienna Convention, and the rules on supplementary means of interpretation in Article 32 of the Vienna Convention, have attained the status of rules of customary or general international law.[489] The Panel will apply the general rule of interpretation and, to the extent warranted, supplementary means of interpretation. The Panel is mindful that Article 3.2 of the DSU *also* provides that "recommendations and rulings of the DSB cannot add to or diminish the rights and obligations provided in the covered agreements".

7.501 The Panel acknowledges the sensitive nature of criminal matters and attendant concerns regarding sovereignty. These concerns may be expected to find reflection in the text and scope of treaty obligations regarding such matters as negotiated by States and other Members.[490] Section 5 of Part III of the TRIPS Agreement, dedicated to criminal procedures and remedies, is considerably briefer and less detailed than the other Sections on enforcement in Part III. Brief as it is, the text of Section 5 also contains significant limitations and flexibilities. The customary rules of treaty interpretation oblige the treaty interpreter to take these limitations and flexibilities into account in interpreting the relevant provision.

(iii) Nature of the obligation

7.502 This claim is brought under the first sentence of Article 61 of the TRIPS Agreement. Article 61 constitutes the whole of Section 5 of Part III of that Agreement and provides as follows:

"SECTION 5: CRIMINAL PROCEDURES

Article 61

> 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. Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity. In appropriate cases, remedies available shall also include the seizure, forfeiture and destruction of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence. Members may provide for criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights, in particular where they are committed wilfully and on a commercial scale."

7.503 The *first* sentence of this Article uses the word "shall", indicating that it is mandatory. This stands in contrast to the *fourth* sentence, which addresses the same issue with respect to other cases of infringement of intellectual property rights but uses the word "may", indicating that it is permissive. Unlike the *third* sentence, the first sentence contains no language such as "in appropriate cases" which might expressly introduce some margin of discretion. The terms of the first sentence of Article 61, read in context, impose an obligation.

7.504 This interpretation is confirmed by Article 41 of the TRIPS Agreement on "General Obligations", which is the first provision of Part III of the TRIPS Agreement and forms part of the context of Article 61. Article 41.1 provides, relevantly, as follows:

> "Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of

[489] Appellate Body Reports in *US – Gasoline*, at p. 17; and *Japan – Alcoholic Beverages II*, at p. 10.
[490] Articles 3, 4 and 41, in particular paragraph 4, of the TRIPS Agreement *inter alia* also apply to criminal enforcement procedures.

> infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements."

7.505 In the Panel's view, the general obligation in Article 41.1 confirms that Article 61 contains obligations, as one of the specific provisions on enforcement procedures in Part III.

7.506 China submits that the first sentence of Article 61 cannot set forth a specific obligation because it provides for enforcement against certain types of infringement but neither the TRIPS Agreement nor the Berne Convention (1971) define what constitutes substantive infringement. Rather, they defer to national discretion to define the rights being infringed.[491]

7.507 The Panel agrees with China that the first sentence of Article 61 contains a number of terms that are not defined by the Agreement and that this can affect the proper interpretation of the provision. However, even though the first sentence does not use the term "infringement", it is important to note that Part II of the TRIPS Agreement, including the provisions of the Paris Convention (1967) incorporated by Article 2.1, and the provisions of the Berne Convention (1971) incorporated by Article 9.1, provide for minimum standards concerning the availability, scope and use of intellectual property rights that apply irrespective of national treatment. These provisions define the rights conferred by intellectual property and the circumstances in which those rights are infringed. Part III of the TRIPS Agreement provides for the enforcement of those rights, to varying degrees. Therefore, the Agreement contains substantive obligations that are not simply matters of national discretion.

7.508 China submits that Article 61 of the TRIPS Agreement is less specific than the Anti-Dumping Agreement and the Agreement on Subsidies and Countervailing Measures and lacks the clarity required to demonstrate a specific, concrete obligation. China also argues that the TRIPS Agreement lacks a provision such as Article 18.4 of the Anti-Dumping Agreement requiring Members to take steps to ensure the conformity of their laws with its provisions.[492]

7.509 The Panel agrees that the TRIPS Agreement differs from trade remedy agreements. However, the Panel will apply the usual rules of treaty interpretation to the terms used in the TRIPS Agreement and make its assessment on that basis in accordance with Article 11 of the DSU. The Panel draws China's attention to Article XVI:4 of the WTO Agreement which provides as follows:

> "Each Member shall ensure the conformity of its laws, regulations and administrative procedures with its obligations as provided in the annexed Agreements."

7.510 The "annexed Agreements" include the TRIPS Agreement. Therefore, Members are obliged to ensure conformity of their respective laws with their respective obligations as provided in the TRIPS Agreement.

7.511 China submits that the third sentence of Article 1.1 of the TRIPS Agreement sets forth the overall context for interpreting the specificity of the standards in the TRIPS Agreement. It describes Article 1.1 as a specific "caveat" that establishes boundaries on obligations, specifically in the realm of enforcement.[493]

7.512 The Panel observes that Article 1.1 of the TRIPS Agreement provides as follows:

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[491] China's first written submission, paras 80-82.
[492] China's first written submission, paras 83-87.
[493] China's first written submission, paras 89-97.

> "Members shall give effect to the provisions of this Agreement. Members may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement. Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice."

7.513 The first sentence of Article 1.1 sets out the basic obligation that Members "shall give effect" to the provisions of this Agreement. This means that the provisions of the Agreement are obligations where stated, and the first sentence of Article 61 so states. The second sentence of Article 1.1 clarifies that the provisions of the Agreement are minimum standards only, in that it gives Members the freedom to implement a higher standard, subject to a condition. The third sentence of Article 1.1 does not grant Members freedom to implement a lower standard, but rather grants freedom to determine the appropriate method of implementation of the provisions to which they are required to give effect under the first sentence. The Panel agrees that differences among Members' respective legal systems and practices tend to be more important in the area of enforcement. However, a coherent reading of the three sentences of Article 1.1 does not permit differences in domestic legal systems and practices to justify any derogation from the basic obligation to give effect to the provisions on enforcement.

7.514 Therefore, the standard of compliance with Article 61 is the minimum internationally agreed standard set out in that Article. The minimum standard in Article 61 does not defer to China's domestic practice on the definition of criminal liability and sanctions for other wrongful acts in areas not subject to international obligations under the TRIPS Agreement, unless it so states. For example, the second sentence refers to "crimes of a corresponding gravity" which might refer to domestic practice in other areas. However, the *first* sentence of Article 61 does not make any such reference.

7.515 For the above reasons, the Panel confirms its view at paragraphs 7.503 to 7.505 above that the first sentence of Article 61 of the TRIPS Agreement imposes an obligation. The Panel will now turn to the terms used in that provision, read in context and in light of the object and purpose of the Agreement, to determine the scope and content of that obligation.

(iv) Scope of the obligation

7.516 The terms of the obligation in the first sentence of Article 61 of the TRIPS Agreement are that Members shall "provide for criminal procedures and penalties to be applied". That obligation applies to "wilful trademark counterfeiting or copyright piracy on a commercial scale". Within that scope, there are no exceptions. The obligation applies to *all* acts of wilful trademark counterfeiting or copyright piracy on a commercial scale.

7.517 The Panel recalls its conclusion at paragraph 7.479 above that, in China, acts of trademark and copyright infringement falling below the applicable thresholds are not subject to criminal procedures and penalties. The issue that arises is whether any of those acts of infringement constitute "wilful trademark counterfeiting or copyright piracy on a commercial scale" within the meaning of the first sentence of Article 61. This requires the Panel to consider the interpretation of that phrase.

7.518 The Panel notes that the first sentence of Article 61 contains no fewer than four limitations on the obligation that it sets forth. These define the scope of the relevant obligation and are not exceptions. The first limitation is that the obligation applies to trademarks and copyright rather than to all intellectual property rights covered by the TRIPS Agreement. The fourth sentence of Article 61 gives Members the option to criminalize other infringements of intellectual property rights, in particular where they are committed wilfully and on a commercial scale. Despite the potential gravity of such infringements, Article 61 creates no obligation to criminalize them. This can be contrasted

with Sections 2 and 3 of Part III of the TRIPS Agreement, regarding civil and administrative procedures and remedies, which apply to any act of infringement of intellectual property rights covered by the Agreement. It can also be contrasted with Section 4 of Part III which attaches conditions to the option to apply its procedures to other infringements of intellectual property rights.[494]

7.519 The second limitation in the first sentence of Article 61, which is related to the first, is that it applies to counterfeiting and piracy rather than to all infringements of trademarks and copyright. This can also be contrasted with Sections 2 and 3 of Part III of the TRIPS Agreement. This limitation, like the first, indicates an intention to reduce the scope of the obligation. Indeed, the records of the negotiation of the TRIPS Agreement confirm that the term "infringements of trademarks and copyright" on a commercial scale was considered in the draft provision on criminal procedures but ultimately rejected.[495]

7.520 The terms "trademark counterfeiting" and "copyright piracy" are not defined in the TRIPS Agreement. They are distinct from the concepts of "trademark infringement" and "copyright infringement". They are similar to the terms "counterfeit trademark goods" and "pirated copyright goods" which are defined for the purposes of the TRIPS Agreement[496] in footnote 14 as follows:

> "For the purposes of this Agreement:
>
> (a) '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;
>
> (b) 'pirated 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."

7.521 The terms used in the first sentence of Article 61 denote classes of acts or activity whilst the terms used in footnote 14 denote classes of goods only. This reflects the fact that Article 61 provides for criminal enforcement against infringing acts whilst Section 4 of Part III (in which the terms defined in footnote 14 are used) provides for enforcement at the border against infringing goods. The definitions in footnote 14 also refer to the law of the country of "importation" whilst Article 61 relates to the law of the Member to which the obligation applies – generally speaking, the law of the Member where the infringing act occurs. Subject to these observations, the Panel considers that the definitions in footnote 14 are relevant in understanding the terms used in Article 61.

7.522 The United States does not claim that Articles 213, 214, 215, 217 and 218 of the Criminal Law fail to cover the full extent of the terms "trademark counterfeiting" and "copyright piracy" as

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[494] See paragraph 7.223 above.

[495] The Panel has recourse to this supplementary means of interpretation in accordance with Article 32 of the Vienna Convention in order to confirm the meaning resulting from the application of the general rule of interpretation in Article 31. See, for example, the Chairman's draft text of 23 July 1990 (document MTN.GNG/NG11/W/76).

[496] The terms "counterfeit trademark goods" and "pirated copyright goods" are used not only in Section 4 of Part III but also in Article 69 of the TRIPS Agreement. The identical term "counterfeit trademark goods" is also used in Article 46.

used in Article 61 of the TRIPS Agreement.[497] China does not contest that each of the thresholds established by the Criminal Law, in particular Articles 213, 214, 215, 217 and 218, applies to acts of "trademark counterfeiting" and "copyright piracy". Therefore, it is unnecessary for the Panel to interpret those terms in greater detail at this stage.

7.523 The third limitation in the first sentence of Article 61 is indicated by the word "wilful" that precedes the words "trademark counterfeiting or copyright piracy". This word functions as a qualifier indicating that trademark counterfeiting or copyright piracy is not subject to the obligation in the first sentence of Article 61 unless it is "wilful". This word, focussing on the infringer's intent, reflects the criminal nature of the enforcement procedures at issue. It is absent from Section 4 of Part III, even though that Section is similarly limited, as a minimum, to counterfeit trademark goods and pirated copyright goods. The penalties for criminal acts, such as imprisonment, fines and forfeiture of property, are relatively grave, as reflected in the second sentence of Article 61. There is no obligation to make such penalties available with respect to acts of infringement committed without the requisite intent.

7.524 The fourth limitation in the first sentence of Article 61 is indicated by the phrase "on a commercial scale" that follows the words "trademark counterfeiting or copyright piracy". This phrase, like the word "wilful", appears to qualify both "trademark counterfeiting" and "copyright piracy". The limitation to cases on a commercial scale, like the limitation to cases of wilfulness, stands in contrast to all other specific obligations on enforcement in Part III of the TRIPS Agreement.[498]

7.525 The principal interpretative point in dispute is the meaning of the phrase "on a commercial scale". This phrase functions in context as a qualifier, indicating that wilful trademark counterfeiting or copyright piracy is included in the scope of the obligation provided that it also satisfies the condition of being "on a commercial scale". Accordingly, certain acts of wilful trademark counterfeiting or copyright piracy are excluded from the scope of the first sentence of Article 61.

7.526 Despite the fact that trademark counterfeiting and copyright piracy infringe the rights of right holders, and despite the fact that they can be grave, the two qualifications of wilfulness and "on a commercial scale" indicate that Article 61 does not require Members to provide for criminal procedures and penalties to be applied to such counterfeiting and piracy *per se* unless they satisfy certain additional criteria. This is highlighted by the fourth sentence of Article 61, which allows Members to provide for criminal procedures and penalties to be applied in other cases of infringement, "in particular" where they are committed wilfully and on a commercial scale. This indicates that the negotiators considered cases of wilful infringement on a commercial scale to represent a subset of cases of infringement, comprising the graver cases. This is useful context for interpreting the first sentence of Article 61, even though it does not refer to "infringement" in general, because the first sentence refers to both "counterfeiting" and "piracy" and wilfulness and commercial scale, evidently to limit the cases of infringement in different ways. Therefore, the text of Article 61 indicates that it must not be assumed that the nature of counterfeiting and piracy *per se* is such that Members are obliged to provide for the application of *criminal* procedures and penalties.

7.527 This is consistent with the nature of the obligation, being a minimum standard, as expressly confirmed by the use of the words "at least" in the first sentence of Article 61 and, more generally, by the second sentence of Article 1.1, quoted at paragraph 7.512 above. Members may, and many do, criminalize other acts of trademark counterfeiting, other acts of copyright piracy, other acts of infringement of trademarks and copyright, and acts of infringement of other intellectual property rights such as patents, but there is no obligation to do so under the TRIPS Agreement.

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[497] United States' first written submission, paras 101 and 106.
[498] Section 4 contains a *de minimis* exception, discussed at paragraph 7.553 below.

7.528 Part III of the TRIPS Agreement distinguishes between the treatment of wilful trademark counterfeiting and copyright piracy on a commercial scale, on the one hand, and all other infringements of intellectual property rights, on the other hand, in that only the former are subject to an obligation regarding criminal procedures and penalties. This indicates the shared view of the negotiators that the former are the most blatant and egregious acts of infringement. This view must inform the interpretation of Article 61.

7.529 The Panel recalls its findings at paragraph 7.241 above as to the circumstances of conclusion of the TRIPS Agreement with respect to enforcement procedures. Whilst some of the pre-existing international intellectual property agreements or conventions contain provisions on the characteristics of enforcement mechanisms, it is striking that none of them create any specific minimum standard for criminal enforcement procedures.[499] Among the international intellectual property agreements with wide membership, Article 61 of the TRIPS Agreement is, in this sense, unique.

7.530 This reflects, in part, the fact that intellectual property rights are private rights, as recognized in the fourth recital of the Preamble to the TRIPS Agreement. In contrast, criminal procedures are designed to punish acts that transgress societal values. This is reflected in the use of the word "penalties" in Article 61.

7.531 Bearing in mind these aspects of the context of the first sentence of Article 61, and the object and purpose of the TRIPS Agreement, the Panel now turns to the ordinary meaning of the words "on a commercial scale".

(v) "on a commercial scale"

7.532 The parties adopt different approaches to the task of interpreting the phrase "on a commercial scale". The Panel will examine each of these approaches in turn, beginning with that of the complainant.

7.533 The ordinary meaning of the word "scale" is uncontroversial. It may be defined as "relative magnitude or extent; degree, proportion. Freq. in *on a grand, lavish, small,* etc. *scale*".[500] The ordinary meaning of the word includes both the concept of quantity, in terms of magnitude or extent, as well as the concept of relativity. Both concepts are combined in the notions of degree and proportion. Therefore, a particular "scale" compares certain things or actions in terms of their size. Some things or actions will be of the relevant size and others will not.

7.534 The relevant size is indicated by the word "commercial". The ordinary meaning of "commercial" may be defined in various ways. The following two definitions have been raised in the course of these proceedings:

> "1. Engaged in commerce; of, pertaining to, or bearing on commerce.
>
> 2. (…)
>
> 3. Interested in financial return rather than artistry; likely to make a profit; regarded as a mere matter of business."[501]

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[499] The Convention for the Protection of Producers of Phonograms against Unauthorized Duplication of their Phonograms, Article 3, expressly provides that each Contracting State may implement the Convention by means of penal sanctions.

[500] *New Shorter Oxford English Dictionary* (1993). Mexico notes a definition in Spanish that refers to degree, but that is not apposite in context: see Mexico's third party oral statement, fn. 8.

[501] *New Shorter Oxford English Dictionary* (1993).

7.535 The Panel considers the first definition to be apposite. It includes the term "commerce" which may, in turn, be defined as "buying and selling; the exchange of merchandise or services, esp. on a large scale".[502] Reading this definition into the definition of "commercial" indicates that "commercial" means, basically, engaged in buying and selling, or pertaining to, or bearing on, buying and selling.[503] A combination of that expanded definition of "commercial" and the definition of "scale" would render a meaning in terms of a relative magnitude or extent (of those) engaged in buying and selling, or a relative magnitude or extent pertaining to, or bearing on, buying and selling. This draws a link to the commercial marketplace.

7.536 The United States also submits that the word "commercial" scale draws a link to the commercial marketplace. However, it refers to elements of the first and third meanings in definition 3., but dismisses the relevance of the second meaning, "likely to make a profit", because it is different from the other two.[504]

7.537 The Panel notes that the third definition, which includes the qualifiers "rather than artistry" and "mere", refers to usages such as a "commercial artist", "commercial film" or "commercial writing" in the sense of those who are more interested in financial return than the artistic merit of a work, works that are of such a nature that they are likely to make a profit and works that are regarded as a mere matter of business rather than as expressions of other values. This definition is not apposite in the first sentence of Article 61.

7.538 Therefore, the Panel considers that the first definition set out at paragraph 7.534 above is appropriate. However, the combination of that definition of "commercial" with the definition of "scale" presents a problem in that scale is a quantitative concept whilst commercial is qualitative, in the sense that it refers to the nature of certain acts. Some acts are in fact commercial, whilst others are not. Any act of selling can be described as commercial in this primary sense, irrespective of its size or value. If "commercial" is simply read as a qualitative term, referring to all acts pertaining to, or bearing on commerce, this would read the word "scale" out of the text. Acts on a commercial scale would simply be commercial acts. The phrase "on a commercial scale" would simply mean "commercial". Such an interpretation fails to give meaning to all the terms used in the treaty and is inconsistent with the rule of effective treaty interpretation.[505]

7.539 There are no other uses of the word "scale" in the TRIPS Agreement, besides the first and fourth sentences of Article 61. However, the wider context shows that the TRIPS Agreement frequently uses the word "commercial" with many other nouns, although nowhere else with "scale". The other uses of the word "commercial" include "commercial rental"[506], "commercial purposes"[507], "commercial exploitation"[508], "commercial terms"[509], "public non-commercial use"[510], "first commercial exploitation"[511], "honest commercial practices"[512], "commercial value"[513], "unfair commercial use"[514], "non-commercial nature"[515] and "legitimate commercial interests".[516]

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[502] *Ibid*.

[503] The Panel also observes that the definition of "commerce" itself expressly includes a notion of "scale", but this appears to refer to commerce in a general sense, such as "trade and commerce", which does not appear apposite within the word "commercial".

[504] See United States' first written submission, paras 109, 110 and 123.

[505] See, for example, Appellate Body Reports in *US – Gasoline*, at p. 23; *Japan – Alcoholic Beverages II*, at p. 12.

[506] Articles 11 and 14.4 of the TRIPS Agreement.

[507] Articles 26.1 and 36 of the TRIPS Agreement.

[508] Article 27.2 of the TRIPS Agreement.

[509] Article 31(b) of the TRIPS Agreement.

[510] Article 31(b) and (c) of the TRIPS Agreement.

[511] Article 38.1 and 38.2 of the TRIPS Agreement.

7.540 The provisions of the Paris Convention (1967) incorporated by Article 2.1 of the TRIPS Agreement include uses of the word "commercial" in the phrase "industrial or commercial establishment" (in the singular or plural)[517] and in the phrases "industrial or commercial matters" and "industrial or commercial activities".[518] The provisions of the Berne Convention (1971) incorporated by Article 9.1 of the TRIPS Agreement include the phrase "any commercial purpose".[519] The provisions of the IPIC Treaty incorporated by Article 35 of the TRIPS Agreement include the phrase "commercially exploited" and "exploits ordinarily commercially".[520]

7.541 The context shows that the negotiators chose to qualify certain activities, such as rental, exploitation and use, as "commercial". They also chose to qualify various nouns, such as "terms", "value", "nature" and "interests", as "commercial" or "non-commercial". In a similar way, they could have agreed that the obligation in the first sentence of Article 61 would apply to cases of wilful and "commercial" trademark counterfeiting or copyright piracy. This would have included all commercial activity. Indeed, the records of the negotiation of the TRIPS Agreement show that this formulation was in fact suggested (by the United States) at an early stage.[521]

7.542 The context shows that the negotiators used the term "commercial purposes" in two provisions on the scope of protection of certain categories of intellectual property rights, and that the Appendix to the Berne Convention (1971) already did use that term in the singular in provisions on possible limitations to particular rights. However, the negotiators did not agree that the obligation in the first sentence of Article 61 would apply to cases of wilful trademark counterfeiting or copyright piracy "for commercial purposes". This would have included all activity for financial gain or profit.

7.543 Instead, the negotiators agreed in Article 61 to use the distinct phrase "on a commercial scale". This indicates that the word "scale" was a deliberate choice and must be given due interpretative weight. "Scale" denotes a relative size, and reflects the intention of the negotiators that the limitation on the obligation in the first sentence of the Article depended on the *size* of acts of counterfeiting and piracy. Therefore, whilst "commercial" is a qualitative term, it would be an error to read it solely in those terms. In context it must indicate a quantity.[522]

7.544 A review of the uses of the word "commercial" throughout the TRIPS Agreement indicates that it links various activities, not simply selling, to the marketplace. It also shows that "commercial" activities cannot be presumed to be on a larger scale than others, such as "public non-commercial" activities, even though they would generally be larger than, say, "personal" or "domestic" use. The distinguishing characteristic of a commercial activity is that it is carried out for profit.[523] The review

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[512] Article 39.2 of the TRIPS Agreement.
[513] Article 39.2(b) of the TRIPS Agreement.
[514] Article 39.3 of the TRIPS Agreement.
[515] Article 60 of the TRIPS Agreement.
[516] Article 63.4 of the TRIPS Agreement.
[517] Articles 3, 5C(3), 6*quinquies*A(2) and 7*bis*(1)) of the Paris Convention (1967). This phrase also appears in footnote 1 to the TRIPS Agreement.
[518] Article 10*bis* of the Paris Convention (1967).
[519] Articles II(9)(a)(iv) and IV(4)(c)(iii) of the Appendix to the Berne Convention (1971).
[520] Article 7(1) and (2), of the IPIC Treaty.
[521] The United States suggested in October 1988 a provision applying to trademark counterfeiting and copyright infringement that were "wilful and commercial" (see document MTN.GNG/NG11/W/14/Rev.1). This suggestion was not taken up. A later US proposal, like certain other proposals, used the phrase "on a commercial scale" (see document MTN.GNG/NG11/W/70).
[522] The Panel is not required, for the purposes of this claim, to express a view as to whether "commercial" also indicates certain qualitative factors, such as a profit-seeking purpose.
[523] At the same time, some activities – such as experimentation – may be conducted in the course of business or in connection with a business without a specific profit-making purpose.

of the uses of the word "commercial" also shows that, unlike all the others, Article 61 uses the word "commercial" to qualify a notion of size.

7.545 In the Panel's view, the combination of the primary definition of "commercial" and the definition of "scale" can be reconciled with the context of Article 61 if it is assessed not solely according to the nature of an activity but also in terms of relative size, as a market benchmark. As there is no other qualifier besides "commercial", that benchmark must be whatever "commercial" typically or usually connotes. In quantitative terms, the benchmark would be the magnitude or extent at which engagement in commerce, or activities pertaining to or bearing on commerce, are typically or usually carried on, in other words, the magnitude or extent of typical or usual commercial activity. Given that the phrase uses the indefinite article "a", it refers to more than one magnitude or extent of typical or usual commercial activity. The magnitude or extent will vary in the different "cases" of counterfeiting and piracy to which the obligation applies. In the Panel's view, this reflects the fact that what is typical or usual varies according to the type of commerce concerned.

7.546 Turning to the arguments of the parties and various third parties on this point, they have attempted to give due meaning to both the terms "commerce" and "scale" in different ways. Initially, the United States submitted as follows:

> "those who engage in commercial activities in order to make a 'financial return' in the marketplace … are, by definition, therefore operating on a commercial scale"[524]

7.547 Similarly, Canada submitted that "commercial scale" refers to activities undertaken with a view to profiting.[525] The European Communities submitted that the terms "commercial" and "scale" denote activities that pertain to a business or to the generation of profits".[526]

7.548 The Panel considers these interpretations unsatisfactory, as they seem to equate "commercial scale" with "commercial purpose" or merely "commercial", which are not the term used in Article 61.

7.549 The United States then clarified that it does not read the word "scale" out of the term "commercial scale" and added a qualifier or two to its initial position, submitting that:

> "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." (emphasis added and removed)[527]; and
>
> "'commercial scale' certainly extends to those who are *genuinely* engaged in commercial activities in order to make a financial return."[528] (emphasis added)

7.550 In response to a request for clarification from the Panel, the United States explained:

> "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.

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[524] United States' first written submission, para. 110. This submission also interpreted "scale": see paragraph 7.659 below.

[525] Canada's third party written submission, para. 5.

[526] European Communities' third party oral statement, paras 4 and 14.

[527] United States' rebuttal submission, para. 17.

[528] United States' closing oral statement at the second substantive meeting, para. 15.

> Whether an infringer is 'seriously' or 'genuinely' engaged in commercial activities would depend on the facts and circumstances of the activity. (…)" [529]

7.551 The Panel understands that this refined approach interprets "commercial scale" as basically everything that is "commercial" with the exception of some trivial or *de minimis* activities. It is not clear how "seriously" and "genuinely" indicate "non-trivial" activities – if anything, "seriously" indicates something more important. However, there is no need to consider its meaning further as the word "seriously" is not used in the terms of the treaty, nor is it implied by the terms that are used.

7.552 Whilst the United States' refined approach has the merit of ensuring that its interpretation of "commercial scale" does not capture an identical class of acts as the term "commercial purpose", the difference seems minimal. This refined approach does not read the word "scale" *out* of the text but nevertheless it reads the word *down* to such an extent that it lacks the significance that the negotiators evidently intended. The negotiators chose the word "scale", which refers to size, rather than other words that they actually used elsewhere in the Agreement that do not exclude activities on the basis of size. They also used the word "scale" in the fourth sentence of Article 61, together with the term "in particular", which would be virtually redundant if the sentence simply meant that Members could provide for criminal procedures and penalties to be applied "in particular" to more than trivial or *de minimis* cases. The context throughout Part III shows that the limitations in Section 5 reflect an effort to address only the more blatant and egregious infringements.

7.553 As to the view that "on a commercial scale" is basically a *de minimis* provision, the Panel need look no further than the preceding provision, Article 60, to see how the negotiators addressed that issue. Article 60 forms part of Section 4 on special requirements related to border measures and serves an analogous purpose to the phrase "on a commercial scale" in Article 61 in that both define the lower end of infringement at which a particular type of enforcement procedure must be available. However, the terms of each are quite different: Article 60 defines *de minimis* infringement in terms of volume ("small quantities"), nature ("of a non-commercial nature") and circumstances ("in travellers' personal luggage or sent in small consignments"). Had the negotiators wanted to exclude only *de minimis* infringement from the minimum standard of Article 61, they had a model in Article 60, or they could have used words such as "except for minor or personal use". However, they did not.[530] Instead, Article 61 refers to size ("scale") qualified only by the word "commercial". This indicates that the negotiators intended something different from *de minimis*. Article 60 also indicates that the negotiators did not equate small with non-commercial, confirming that a "commercial" scale is not necessarily small-scale nor large-scale.

7.554 Among the other third parties, Brazil referred to a "significant" or "large" enough level based on certain factors[531], Mexico argued for a "meaningful" level[532]; Korea referred to operating a business "in a somewhat systematic fashion".[533] Canada acknowledged as follows:

> "There is perhaps no easily quantifiable measure because none is provided for in TRIPS. This omission suggests that the test is qualitative: what a reasonable person would think in the circumstances."[534]

7.555 The Panel considers that these interpretations, whilst they may reflect sound domestic policy considerations, lack a clear basis in the rules of treaty interpretation which the Panel is obliged to

[529] United States' response to Question No. 63.

[530] Indeed, the United States expressed a similar view in order to explain why a reference to "exceptional cases" in Article 46 of the TRIPS Agreement is not a *de minimis* test (see paragraph 7.387 above).

[531] Brazil's third party written submission, para. 36.

[532] Mexico's third party oral statement, para. 6.

[533] Korea's third party written submission, para. 27.

[534] Canada's third party written submission, para. 7.

apply. All of these interpretations are valid explanations as to why such infringement should be unlawful but they do not explain why it must be a crime. The answer to that question must be found in the terms of the treaty as finally agreed.

7.556 In this connection it seems pertinent to recall that the negotiators chose a term that was different from the commercial purpose or financial return standards used in the national legislation of a number of the participants.

7.557 Turning now to the respondent's approach to the interpretation of "on a commercial scale", China submits that these words should be interpreted as a single term.[535] The United States proposes that each of the terms in the two-word term be interpreted and does not submit that there are other ordinary uses of the phrase that would be relevant.[536]

7.558 The Panel observes that the general rule of treaty interpretation in Article 31 of the Vienna Convention refers in paragraph 1 to the ordinary meaning of the terms of the treaty, read in context. Where the terms are a single term, or ordinarily used together, then the treaty interpreter should refer to the ordinary meaning of that single term, or of each term in the particular context of each other. This is a distinct exercise from that in paragraph 4 of Article 31 of the Vienna Convention which requires a "special meaning" to be given to a term if it is established that the parties so intended. No party to this dispute considers that a "special meaning" should be given to the phrase "on a commercial scale", and nor does the Panel.

7.559 The Panel will follow the approach explained by the Appellate Body in *EC – Chicken Cuts:*

> "The Appellate Body has observed that dictionaries are a 'useful starting point' for the analysis of 'ordinary meaning' of a treaty term, but they are not necessarily dispositive. The ordinary meaning of a treaty term must be ascertained according to the particular circumstances of each case. Importantly, the ordinary meaning of a treaty term must be seen in the light of the intention of the parties 'as expressed in the words used by them against the light of the surrounding circumstances'".[537]

7.560 The Panel recalls that the dictionary definition of "scale" (quoted at paragraph 7.533 above) includes the entry "Freq. in *on a grand, lavish, small,* etc. *scale*". These examples show that the phrase "on a … scale" is frequently used. Therefore, the use of the words "on a commercial scale" as a phrase appears to be relevant to their ordinary meaning.

7.561 The circumstances surrounding the inclusion of the phrase "on a commercial scale" show that the phrase has been used and, in some cases, defined in the intellectual property legislation of various countries for periods stretching back almost a century. Specifically, the patent laws of these countries refer to the working of inventions, or failure to work inventions, "on a commercial scale".[538] The term is used in relation to the exploitation of protected subject matter, as in Article 61, but the purpose of these non-working provisions, and the considerations relevant to their operation, are distinct from

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[535] China's first written submission, paras 69-71.

[536] United States' response to Question No. 68.

[537] Appellate Body Report in *EC – Chicken Cuts*, para. 175, quoting Appellate Body Report in *US – Softwood Lumber IV*, para. 59, and referring to Appellate Body Reports in *US – Offset Act (Byrd Amendment)*, para. 248, and *US – Gambling*, para. 166, and quoting McNair, *The Law of Treaties* (Oxford, Clarendon Press, 1961), p. 365.

[538] See, for example, the Australian Patent Act 1990, s. 135(1) (mentioned in response to Third Party Question No. 9); Indian Patents Act 1970, ss. 83-84; South African Patent Act 1978, s. 56; United Kingdom Patent Act 1977-1988, s. 50; Zimbabwean Patents Act 1971, s. 31, in Exhibit CHN-198, and the patent laws of other Commonwealth countries. Earlier, the United Kingdom Patents and Design Act 1919, s. 27, had referred to working a patent "on a commercial scale".

those of criminal procedures and penalties as addressed in Article 61 of the TRIPS Agreement. There is insufficient indication that the meaning ascribed to the term "on a commercial scale" in such legislation was that intended by the negotiators of the TRIPS Agreement when they used the term in the first and fourth sentences of Article 61. However, this circumstance shows the phrase in use in an intellectual property context long before the negotiation of the TRIPS Agreement.

7.562 The term "on a commercial scale" was also used in the specific context of trademark counterfeiting and copyright piracy in the WIPO Committee of Experts on Measures Against Counterfeiting and Piracy in 1988 contemporaneously with the earlier part of the negotiations of the TRIPS Agreement. Draft Model Provisions for National Laws set out in a Memorandum by the International Bureau of WIPO for that Committee included, in Article A(1), (2) and (3), three draft Model Provisions on manufacturing as an act of counterfeiting, manufacturing as an act of piracy and additional acts of counterfeiting and piracy, respectively. Each of those draft Model Provisions contained a proviso that such goods were manufactured, or the act was committed, "on a commercial scale". An explanatory observation accompanied the term "commercial scale" as a phrase.[539]

7.563 The evidence on the record includes many other uses of the words "commercial scale" and "on a commercial scale" in a variety of contexts. Accordingly, the Panel considers that the words "commercial" and "scale" provide important context for the ordinary meaning of each other when used together in the phrase "on a commercial scale" as in the first sentence of Article 61 of the TRIPS Agreement.

7.564 China submits that the phrase "on a commercial scale" refers to "a significant magnitude of infringement activity".[540] China refers to four isolated uses of the phrase "commercial scale" spread out over a period of forty years: one at the 1947-1948 Havana Conference, one in a 1985 GATT Council meeting, and two in US national legislation on alternative energy development. From these uses, China posits an interpretation suggestive of industrial scale activity.[541]

7.565 The Panel considers that this interpretation is predetermined by the context of the uses that China has selected, which refer to commercial scale activities at an industrial level. This is inapposite in the context of Article 61 of the TRIPS Agreement which applies to acts of infringement of individual rights, including those subsisting in individual products. This interpretation simply replaces the term "commercial", that is used in the text, with "significant", that is not used in the text, effectively reading out the term "commercial".

7.566 China also argues that the explanatory observation that accompanied the draft Model Provisions is an example of ordinary usage of the term "commercial scale".[542]

7.567 The Panel notes that the explanatory observation did not purport to be a definition but was prepared by the International Bureau of WIPO for the specific purpose of accompanying a provision on manufacturing in the draft Model Provisions. The Report of the WIPO Committee of Experts on Measures against Counterfeiting and Piracy of April 1988 shows that the concept of "commercial

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[539] That explanatory observation read as follows:
"'Commercial scale' is a notion which will have to be applied taking into consideration the circumstances accompanying the manufacture. The quantity of the goods manufactured, the way in which they were, are or are intended to be used and the will to make profit are among the factors that the courts will have to take into consideration."
See WIPO document C&P/CE/2 of 18, 19 February 1988, para. 17, set out in Exhibit CHN-43
[540] China's first written submission, para. 64.
[541] Exhibits CHN-44, CHN-45, CHN-46 and CHN-47.
[542] China's first written submission, para. 72; rebuttal submission, para. 76.

scale" proved controversial.[543] Accordingly, it is not an example of ordinary usage. In any event, the draft Model Provisions of the Committee of Experts themselves were never agreed.[544] Therefore, it would not be appropriate to select an explanatory observation that accompanied them and elevate it to the status of the proper interpretation of a treaty text that was negotiated in another forum and that *was* finally agreed.

7.568 Turning to other evidence on the record, two third parties contrasted "commercial scale" production with "pilot scale" production or "small scale test" production.[545] The Panel finds these contrasting terms relevant because they indicate a quantity, and because production can be an act of counterfeiting or piracy.

7.569 In response to questions from the Panel, China, but not the United States, provided other examples of ordinary uses of the phrase "commercial scale", including in company press releases, filings with the US Securities and Exchange Commission and patent applications. The United States argues that these examples are functions of individuals' "own lexicography" and are not used in the same fashion or manner.[546] The United States also notes that patent applications are unrelated to the *first* sentence of Article 61 of the TRIPS Agreement.

7.570 The Panel considers that each of the uses on the record, being in the English language, reflects the understanding of the authors as to the ordinary meaning of those words and phrases in that language. That is the reason why a language allows its speakers to render themselves mutually intelligible. These are the very meanings that dictionaries catalogue. Naturally, words and phrases in the same language may have more than one meaning, "common or rare, universal or specialized".[547] It is incumbent on the Panel to assess these usages in context to discern which is relevant to the question of interpretation at hand, just as the Panel has done when confronted with multiple definitions of the words "commercial" and "scale" in the same dictionary. The Panel also notes that Article 61 of the TRIPS Agreement specifically relates the concept of infringement "on a commercial scale" to other intellectual property rights, which include patents, in the *fourth* sentence of that Article.

7.571 Turning to the ordinary meaning of the term "on a commercial scale", the evidence includes examples of uses of that precise term and also the words "commercial scale" followed by a noun. It is not suggested that this changes the meaning. The nouns include "manufacturing", "production", "facility", "processes", "reactor", "composition" and "cultivation", and the term also follows "manufacture" and "employ".[548] This confirms that the phrase can be used in different contexts as a single term.

7.572 Some of these nouns, notably manufacturing and production, refer to acts that could constitute trademark counterfeiting and copyright piracy, and are therefore particularly apposite to the interpretation of the first sentence of Article 61 of the TRIPS Agreement. However, counterfeiting and piracy include other acts besides manufacturing and production. There are no uses on the record of the phrase with the word "sales" or "selling".

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[543] See Report adopted by the WIPO Committee of Experts on Measures Against Counterfeiting and Piracy, WIPO document C&P/CE/4 of 28 April 1988, reproduced in Exhibit CHN-72, at paras 71-81 and 94.

[544] The April 1988 session of the Committee of Experts could not complete its work and it was envisaged that a revised text would be prepared: see Report in note 543 above, at para. 177.

[545] Australia's and Mexico's respective responses to Third Party Question No. 4.

[546] United States' response to Question No. 69; comments on China's response to Question No. 68.

[547] Appellate Body Report in *US – Gambling*, para. 164.

[548] Press releases of Novovax and Dupont, and US Securities and Exchange Commission filings of Amylin Pharmaceuticals, Inc., Biocryst Pharmaceuticals, Inc., Cambridge Display Technology, Inc. and Verenium Corporation in Exhibit CHN-196; and China's original evidence in Exhibits CHN-44, CHN-45, CHN-46 and CHN-47.

7.573 Simple searches of online patent databases of the Patent Cooperation Treaty, the United States Patent and Trademark Office and the European Patent Office, reveal many patent applications that use the phrase "commercial scale". China has provided abstracts of some applications that define the phrase "commercial scale" in precise, quantitative terms of volume, weight or speed.[549] These definitions vary greatly and relate to different factors, according to the invention claimed in the application. From this evidence, China concludes that:

> "In the context of patent applications, the phrase 'commercial scale' refers to a certain level of magnitude. This magnitude is not necessarily objectively high, but it is relatively high in the context of the operation involved."[550]

7.574 The United States finds this statement "telling" and recalls its view that:

> "[B]ased on its ordinary meaning, what qualifies as 'commercial scale' piracy or counterfeiting will vary among product and market, and therefore, what is 'commercial scale' can be determined using factors relevant to a particular situation."[551]

7.575 The United States argues that the uses in the press releases and SEC filings must be understood in context, as in some cases:

> "[W]hether a manufacturing activity is 'commercial scale' may well mean whether the activity is undertaken on a scale, or at a level of economic efficiency, that allows that public company to make a return on investment or profit for its shareholders."[552]

7.576 The Panel observes a certain degree of convergence between the parties' views, as compared to their initial positions, when addressing these ordinary uses of the phrase "commercial scale". The Panel considers that the contexts in which the term "on a commercial scale" or "commercial scale" is used, given their variety, indicate that each of the words "commercial" and "scale" provides important context for the interpretation of the other when used together. Their combined meaning varies greatly according to the context around them and the lack of precision in the term is apparent.[553] However, it is clear that none of these uses refer to activities that are simply commercial. Rather, they are evidently intended to distinguish certain activities (or premises) from others that pertain to or have a bearing on commerce but which do not meet a market benchmark in terms of what is typical. The precise benchmark in each case depends on the product and the market to which the phrase relates.

7.577 The Panel recalls its view at paragraph 7.545 above and, in light of the evidence considered above, finds that a "commercial scale" is the magnitude or extent of typical or usual commercial activity. Therefore, counterfeiting or piracy "on a commercial scale" refers to counterfeiting or piracy carried on at the magnitude or extent of typical or usual commercial activity with respect to a given product in a given market. The magnitude or extent of typical or usual commercial activity with respect to a given product in a given market forms a benchmark by which to assess the obligation in the first sentence of Article 61. It follows that what constitutes a commercial scale for counterfeiting or piracy of a particular product in a particular market will depend on the magnitude or extent that is typical or usual with respect to such a product in such a market, which may be small or large. The

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[549] International applications published under the PCT: WO 00/61722; WO 2004/054949 A1; WO 2006/110534 A2; WO2008/020357 A2; United States patent no. 6,525,205 B2; United States patent application no. 2007/0202578 A1; in Exhibit CHN-197.

[550] China's response to Question No. 69.

[551] United States' comment on China's response to Question No. 69, citing its response to Question No. 16 and second oral statement (closing statement), paras 10-11.

[552] United States' comment on China's response to Question No. 68.

[553] The lack of precision is highlighted by the addition of specific definitions in the patent applications.

magnitude or extent of typical or usual commercial activity relates, in the longer term, to profitability.[554]

7.578 The Panel observes that what is typical or usual in commerce is a flexible concept. The immediate context in the second sentence of Article 61, which is closely related to the first, refers to the similarly flexible concepts of "deterrent" and "corresponding gravity". Neither these terms nor "commercial scale" are precise but all depend on circumstances, which vary according to the differing forms of commerce and of counterfeiting and piracy to which these obligations apply.

7.579 The parties have presented certain other facts and arguments in relation to the interpretation of "a commercial scale", which the Panel will now assess.

(vi) Subsequent practice

7.580 China refers to certain material as "subsequent practice" in the application of the TRIPS Agreement within the meaning of Article 31(3) of the Vienna Convention. The material comprises the enforcement policies of two authorities of two Members, a draft Directive of another Member and various free trade agreements entered into by the United States.[555]

7.581 The Panel has reviewed the material and considers that it lacks the breadth to constitute a common, consistent, discernible pattern of acts or pronouncements. Further, the content of the material does not imply agreement on the interpretation of Article 61 of the TRIPS Agreement.[556] Therefore, the Panel does not consider that it constitutes subsequent practice for the purposes of this interpretation.

(vii) Supplementary means of interpretation

7.582 China initially submitted that the draft Model Provisions contained a definition which formed the basis for discussion of the term in the negotiation of the TRIPS Agreement.[557]

7.583 The United States responded that the status of this document under the Vienna Convention is unclear. If the document could be used as a supplementary means of interpretation, it would confirm that a variety of factors would need to be taken into account to determine whether an act is on a commercial scale.[558]

7.584 Canada and Japan refer to the explanatory observation on "commercial scale" that accompanied the draft Model Provisions, noting that it referred to quantitative as well as non-quantitative factors. The European Communities sees limited interest in recourse to supplementary means of interpretation but notes the same point.[559]

7.585 The Panel recalls its observations regarding the explanatory observation that accompanied the draft Model Provisions at paragraph 7.567 above. It appears that the explanatory observation did not represent the common intentions of the WIPO Committee of Experts on Measures Against

[554] This finding is without prejudice to the qualitative aspect of "commercial scale" considered with respect to the second limb of this claim.

[555] China's first written submission, paras 104-108.

[556] See Appellate Body Reports in *Japan – Alcoholic Beverages II*, p. 13; *US – Gambling*, paras 192-193, and *EC – Chicken Cuts*, para. 259.

[557] China's first written submission, paras 72-75 and 110.

[558] United States' rebuttal submission, paras 26-37.

[559] Canada's third party written submission, para. 6; Japan's third party written submission, paras 22-23; European Communities' third party oral statement, paras 11-12.

Counterfeiting and Piracy, much less the common intentions of the participants in the negotiation of the TRIPS Agreement.

7.586 The draft Model Provisions were mentioned in the records of the TRIPS negotiations, in May 1988[560] and August 1988[561], in the context of a discussion of the scope of a framework on trade in counterfeit goods (that was never concluded). Documents of the WIPO Committee of Experts, including the draft Model Provisions, were communicated to the TRIPS negotiating group and made available in the GATT Secretariat for consultation by interested delegations, but not circulated, in June 1988.[562] The Panel considers that this evidence indicates that the negotiators of the TRIPS Agreement were aware of the explanatory observation by the International Bureau of WIPO addressing "commercial scale", but it does not indicate that the content of that explanatory observation represented their common intentions.

7.587 There is a certain temporal correlation between the work of the WIPO Committee of Experts and the use of the term "commercial scale" in the drafting of Article 61 of the TRIPS Agreement. The European Communities' proposal for the negotiations on the enforcement of trade-related intellectual property rights in May 1989 ("EC proposal")[563] contained a draft provision on criminal procedures and sanctions that bears a strong similarity to the first, second and fourth sentences of Article 61 in the final text of the TRIPS Agreement. It was also the first proposal to use the words "on a commercial scale". In response to a question from the Panel, the European Communities informed the Panel that:

> "In spite of intense research, the European Communities has not been able to find any trace that the phrase 'on a commercial scale' in the EC proposal of 30 May 1989 was sourced from another instrument."[564]

7.588 In any event, there are differences between the draft Model Provisions of the WIPO Committee of Experts, the EC proposal on criminal procedures and sanctions to the TRIPS negotiating group, and the terms of Article 61 of the TRIPS Agreement. In particular, the draft Model Provisions incorporated the phrase "on a commercial scale" *within* the concepts of "counterfeiting" and "piracy" whilst Article 61 uses the phrase "on a commercial scale" to qualify the concepts of "wilful trademark counterfeiting or copyright piracy". Further, the explanatory observation that accompanied the draft Model Provisions was limited to the act of manufacturing whilst Article 61 encompasses the range of acts of counterfeiting and piracy.

7.589 The records of the TRIPS negotiations do not disclose any discussion of the meaning of the phrase "on a commercial scale".

7.590 Therefore, the Panel does not consider that the explanatory observation that accompanied the draft Model Provisions sheds any further light beyond that noted at paragraph 7.562 above on the intentions of the TRIPS negotiators when they used the term "commercial scale".

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[560] It was suggested that, in that connection, the negotiating group should take into account definitions established in national legislation, those under preparation in the WIPO Committee of Experts on Measures Against Counterfeiting and Piracy and the existing obligations of relevance in intellectual property conventions: see the minutes of the meeting in document MTN.GNG/NG11/7, paras 23 and 33, in Exhibit CHN-71.

[561] A participant suggested that, in determining the types of infringement to be covered by a framework on trade in counterfeit goods, the criteria suggested in the WIPO draft model legislation should be employed: see the minutes of the meeting in document MTN.GNG/NG11/8, at para. 52, in Exhibit CHN-55.

[562] See GATT document MTN.GNG/NG11/W/5/Add.6.

[563] GATT document MTN.GNG/NG11/W/31.

[564] European Communities' response to Third Party Question No. 8.

(viii) Article 41.5 of the TRIPS Agreement

7.591 China submits that Article 41.5 of the TRIPS Agreement makes clear that none of the enforcement provisions can be read to require Members to set out low-scale – and therefore high resource – thresholds for the criminalization of intellectual property infringement.[565] It later clarified that low-scale thresholds implied high amounts of resources because the first sentence of Article 61 is only satisfied by criminal measures that are actually applied.[566]

7.592 The United States does not claim that China has an obligation to prosecute all counterfeiting and piracy falling within the scope of the first sentence of Article 61.[567]

7.593 Article 41.5 provides as follows:

> "It is understood that this Part does not create any obligation to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general, nor does it affect the capacity of Members to enforce their law in general. Nothing in this Part creates any obligation with respect to the distribution of resources as between enforcement of intellectual property rights and the enforcement of law in general."

7.594 The Panel considers that Article 41.5 is an important provision in the overall balance of rights and obligations in Part III of the TRIPS Agreement. Both sentences apply to "this Part", which includes Article 61.

7.595 The first sentence of Article 41.5 does not appear to be relevant to this dispute. China has administrative agencies dedicated to intellectual property enforcement that are separate from its law enforcement agencies in general. It is under no obligation to put in place a separate judicial system for IPR enforcement.

7.596 The second sentence of Article 41.5 relates to the deployment of resources for enforcement. In the Panel's view, that plays an important role in relation to Article 41, in particular, paragraph 1[568], and the actual exercise of authority to enforce intellectual property rights throughout Part III. However, the Panel's findings in this dispute regarding the first sentence of Article 61 are confined to the issue of what acts of infringement must be criminalized and not those which must be prosecuted.

7.597 China refers to the second sentence of Article 61 on remedies and notes that it contains an element of flexibility in its reference to "the level of penalties applied for crimes of a corresponding gravity". China argues that if Members are not required to impose meaningful punishment for low-level crimes, they should not be required to enforce intellectual property crimes at a low level either.[569] The Panel simply recalls its comment in paragraph 7.596 and confirms that it has not made a finding on any duty to prosecute.

7.598 China asks the Panel to note that its criminal law allows for the possibility of private prosecution of certain crimes. It speculates that defining a crime with too low a threshold "could unleash a large volume of private enforcement actions and impose a significant burden on the judicial

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[565] China's first written submission, paras 98-101.

[566] China's rebuttal submission, paras 122-124: see also European Communities' response to Third Party Question No. 10. Australia makes a similar point in relation to the second sentence of Article 61: see its third party written submission, para. 25.

[567] United States' rebuttal submission, paras 47-48.

[568] Article 41.1 of the TRIPS Agreement is quoted at paragraph 7.170 above.

[569] China's rebuttal submission, paras 108-110.

system".[570] However, in response to questions, China was unable to substantiate its concern. In particular, it lacked any data relevant to its experience after it lowered thresholds for the crimes infringing intellectual property crimes in 2004.[571] Therefore, the Panel does not need to consider that issue further.

7.599 In light of the above, the Panel confirms its interpretation of "on a commercial scale" set out at paragraph 7.577 above. The Panel will now apply that interpretation to the measures at issue.

(ix) Conformity of the measures at issue with respect to the level of the thresholds

7.600 The Panel recalls its finding at paragraph 7.545 above regarding the interpretation of the phrase "wilful trademark counterfeiting or copyright piracy 'on a commercial scale'", as used in Article 61 of the TRIPS Agreement. The Panel recalls, in particular, that this is a relative standard, which will vary when applied to different fact situations.

7.601 The Panel notes that it is the standard in the treaty obligation that varies as applied to different fact situations, and not necessarily the means by which Members choose to implement that standard. The Panel recalls that the third sentence of Article 1.1 of the TRIPS Agreement, quoted and discussed at paragraphs 7.512 and 7.513 above, provides as follows:

> "Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice."

7.602 This provision confirms that the TRIPS Agreement does not mandate specific forms of legislation.[572] The Panel may not simply assume that a Member must give its authorities wide discretion to determine what is on a commercial scale in any given case, and may not simply assume that thresholds, including numerical tests, are inconsistent with the relative benchmark in the first sentence of Article 61 of the TRIPS Agreement. As long as a Member in fact provides for criminal procedures and penalties to be applied in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale, it will comply with this obligation. If it is alleged that a Member's method of implementation does not so provide in such cases, that allegation must be proven with evidence. Therefore, the Panel will assess whether the evidence shows that China fails to provide for criminal procedures and penalties to be applied in any such cases.

7.603 The Panel begins with the first limb of the claim. In the first limb of the claim, the United States challenges the *levels* at which certain thresholds are set. Having chosen to challenge the level of a series of numerical thresholds as compared to a relative standard, it is necessary for the United States to demonstrate that the levels are higher than that standard as applied in certain factual situations. That calls for quantitative evidence. Later, the Panel will address the second limb of the claim, in which the United States challenges the *factors* taken into account by the criminal thresholds. That calls for qualitative evidence.

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[570] China's first written submission, para. 38, referring to Article 170 of the Criminal Procedure Law, as restated in Article 5 of Judicial Interpretation No. 6 [2007].

[571] China's response to Question No. 14.

[572] The United States accepts this: see its rebuttal submission, paras 42-44; response to Question No. 54.

7.604 The parties agree that the standard of "a commercial scale" will vary by product and market and that the conformity of China's criminal thresholds with that standard must be assessed by reference to China's marketplace. [573]

7.605 The Panel recalls that a previous Panel had occasion to apply certain relative standards in the TRIPS Agreement in quantitative terms. The Panel in *US – Section 110(5) Copyright Act* interpreted the phrase "certain special cases" *inter alia* in terms of a narrow scope or reach, and the phrase "a normal exploitation of the work" *inter alia* in an empirical or quantitative sense, as those phrases are used in Article 13 of the TRIPS Agreement.[574] As in the present case, the parties in that dispute agreed that conformity had to be assessed wholly or primarily in relation to the respondent's market. The Panel in that dispute adopted the following approach in assessing the conformity of a measure with Article 13:

> "We note that while the WTO Members are free to choose the method of implementation, the minimum standards of protection are the same for all of them. In the present case it is enough for our purposes to take account of the specific conditions applying in the US market in assessing whether the measure in question conflicts with a normal exploitation in that market, or whether the measure meets the other conditions of Article 13."[575] (footnote deleted)

7.606 In the present dispute, the Panel considers this approach appropriate as well. The Panel needs to consider the specific conditions applying in China's marketplace in assessing whether the measures in question, which exclude certain acts of infringement from particular liability, conform to the relative standard in Article 61.[576] This applies *a fortiori* as the relative standard is set in terms of what is "on a commercial scale", which varies not only by market but also by product within the same market.

7.607 The nature of the measures at issue and the applicable treaty obligation under consideration in this Section of this Report can be contrasted with those considered in Section VII:A. It was not necessary for the United States to demonstrate the particular class of works to which the Copyright Law denies copyright protection because it was clear that the measure at issue denies *all* copyright protection to some works and the relevant obligation in the TRIPS Agreement does not permit denial of all copyright protection to any such works. In contrast, the measures that establish the criminal thresholds set forth levels that deny criminal procedures and penalties in some, but not all, cases of wilful trademark counterfeiting and copyright piracy, and the relevant obligation permits the denial of criminal procedures and penalties in some such cases.

7.608 The United States argues that the criminal thresholds exclude certain commercial activity. The United States relies, in particular, on the text of the measures establishing the criminal thresholds themselves.[577]

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[573] United States' first written submission, fn. 78 and para. 118; rebuttal submission, para. 17; responses to Questions Nos. 16 and 66; China's first written submission, paras 133-137; response to Question No. 16.

[574] See Panel Report in *US – Section 110(5) Copyright Act*, paras 6.113 and 6.178.

[575] *Ibid.*, para. 6.189.

[576] The Panel Report in *Canada – Pharmaceutical Patents* also considered the meaning of "normal" exploitation (in that case, of a patent) but in abstract terms. However, it did so in an assessment of an exception that was challenged on the basis of the nature of the acts that the measures excused from liability, not their magnitude or extent. Both parties also addressed the meaning of "normal" in that case in abstract terms: see paras 7.51-7.59.

[577] United States first written submission, para. 110; rebuttal submission, para. 10.

7.609 The Panel has reviewed the measures and agrees that, on their face, they do exclude certain commercial activity from criminal procedures and penalties. For example, some of the criminal thresholds are set in terms that refer expressly to commercial activity, such as "illegal business operation volume", which is defined in terms of "manufacture, storage, transportation, or sales" of infringing products, and "illegal gains" which is defined in terms of profit. However, based solely on the measures on their face, the Panel cannot distinguish between acts that, in China's marketplace, are on a commercial *scale*, and those that are not.

7.610 Certain thresholds are set in monetary terms, ranging from ¥20,000 profit to ¥50,000 turnover or sales. The measures, on their face, do not indicate what these amounts represent as compared to a relevant commercial benchmark in China.[578] Each of these amounts represents a range of volumes of goods, which vary according to price. Another factor to take into account is the period of time over which infringements can be cumulated to satisfy these thresholds. One threshold is set not in monetary terms but rather at 500 张 (份) ("copies" for the sake of simplicity). Whilst it is reasonably clear to the Panel how many goods that comprises with respect to certain traditional media, this is not, on its face, related to any relevant market benchmark in China either.

7.611 The Panel has noted the United States' repeated assertions that certain amounts constitute counterfeiting or piracy on a commercial scale. The most recurrent example concerns 499 copyright-infringing "copies", although it is not related to the same product in all examples or, sometimes, to any product.[579] The only facts in these examples are amounts equal to, or slightly less than, those in the measures themselves. Those amounts, in combination with the monetary thresholds and the factors used in the thresholds, demonstrate the class of acts for which China does not provide criminal procedures and penalties to be applied. Those numbers and factors do not, in themselves, demonstrate what constitutes a commercial scale for any product or in any market in China.

7.612 China asserted the relevance of the scale of commerce in China in its first written submission and referred to Economic Census statistics (considered below).[580]

7.613 The Panel asked both parties after the first substantive meeting whether "commercial scale" varies according to characteristics of markets, products and operators within a market, how "commercial scale" can be related to these considerations and what type of data could be relevant.[581]

7.614 In response to the Panel's question, the United States referred to the interpretation of "commercial scale" that it had proposed in its first written submission, which included all commercial activity by definition. The United States agreed that "commercial scale" must be viewed with reference to the marketplace, and acknowledged that the scale of what is commercial necessarily will vary by product and market. It acknowledged that what is "commercial scale" can vary from situation to situation according to a number of factors. It asserted that China's criminal thresholds fail to capture commercial scale in certain market situations.[582] Nevertheless, the United States did not provide data regarding products and markets or other factors that would demonstrate what constituted "a commercial scale" in the specific situation of China's marketplace.

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[578] The parties agree that the thresholds should be assessed in the form in which they appear in China's measures, namely *Renminbi* (¥), which is the local currency used in China's marketplace: see their respective responses to Question No. 5.

[579] United States' first written submission, para. 139; response to Question No. 25; rebuttal submission, para. 112; response to Question No. 64.

[580] China's first written submission, paras 133-137.

[581] Question No. 16.

[582] United States' response to Question No. 16.

7.615 In its rebuttal of China's assertion regarding the scale of commerce in China, the United States noted that the "commercial scale" standard was a relative one.[583] It commented on the Economic Census statistics submitted by China but at the same time dismissed their relevance as they are aggregate statistics related to undefined average economic units. It also recalled an earlier assertion that the Chinese market, including the market for many copyright and trademark-bearing goods, is fragmented and characterized by a profusion of small manufacturers, middlemen, distributors, and small outlets at the retail level.[584]

7.616 The Panel has reviewed the evidence in support of this assertion.[585] The evidence comprises a quote from a short article from a US newspaper, the *San Francisco Chronicle*, titled *"30,000-Store Wholesale Mall Keeps China Competitive"* regarding the number of stores in a particular mall in Yiwu and the physical dimensions of some stalls[586]; a statistic quoted from an extract from a management consultant report titled *"The 2005 Global Retail Development Index"* that the top ten retailers in China hold less than 2 per cent of the market, and another statistic that the top 100 retailers have less than 6.4 per cent[587]; and a quote from an article in *Time* magazine titled *"In China, There's Priceless, and for Everything Else, There's Cash"* that a shopping mall in Luohu spans six floors of small stores.[588]

7.617 The Panel finds that, even if these sources were suitable for the purpose of demonstration of contested facts in this proceeding, the information that was provided was too little and too random to demonstrate a level that constitutes a commercial scale for any product in China.

7.618 The United States referred to Canada's third party written submission, which had provided an estimate of China's gross domestic product per capita.[589] It did not explain specifically how this figure was comparable to China's numerical thresholds.

7.619 The Panel considers GDP per capita a reliable indicator of average national income but not a sufficient indicator of a commercial scale, as it is calculated with a denominator of total population.[590] The Panel also notes that GDP is a far more aggregated figure than those in the Economic Census statistics that the United States dismissed.

7.620 China submits that the United States must provide evidence that China's laws actually function to exclude a category of infringement that meets the "commercial scale" standard. Hypothetical examples do not qualify as sufficient evidence.[591]

7.621 In response, the United States asserts that it, and a number of third parties, have provided "numerous, concrete illustrations" of commercial-scale piracy and counterfeiting that take place underneath China's thresholds.[592] It refers to a "Report on Copyright Complaints, Raids and Resulting

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[583] United States' rebuttal submission, para. 104.
[584] United States' rebuttal submission, paras 106-107.
[585] The evidence was submitted with the United States' first written submission, para. 122.
[586] Exhibit US-28.
[587] A.T. Kearney: "Destination: China" in *The 2005 Global Retail Development Index* in Exhibit US-29.
[588] Exhibit US-30. An article from the London *Daily Telegraph* is also submitted in Exhibit US-31.
[589] United States' rebuttal submission, para. 108, referring to Exhibit CDA-1.
[590] As noted in China's rebuttal submission, para. 142.
[591] China's rebuttal submission, para. 149.
[592] United States' second oral statement, para. 28, elaborating on its rebuttal submission, paras 9-10.

Criminal Actions in China" prepared by a coalition of trade associations in 2008 (the "CCA Report").[593]

7.622 The Panel has reviewed the CCA Report to determine whether it bears out the United States' assertion. The CCA Report was originally submitted as a case example intended to show that the criminal thresholds create a "safe harbour" (an assertion not borne out by the data[594]) and also to show that significant quantities of retail sales of infringing product take place in China at levels below China's thresholds.[595]

7.623 The Panel notes that the question whether retail sales of infringing product take place below the thresholds is not dispositive of the claim, as the first sentence of Article 61 does not require Members to provide for criminal procedures and penalties to be applied to all such cases. Further, the CCA Report sets out for each raid "total units seized (DVD, CD, VCD)". For some raids, the total units seized were as few as five. Therefore, while the aggregate number of seizures below China's thresholds may or may not be "significant", the seizure data does not permit any deduction as to the scale of operations of the individual raided retail outlets. The total units seized in many cases may be only part of, or even incidental to, a commercial operation. The seizure data illustrates the scale of infringing stock on hand (as it is intended to do) but it does not show the scale of the individual retail businesses or what constitutes a commercial scale for those products in that market.[596]

7.624 China provided official statistics from its Economic Census.[597] The statistics include figures for average annual revenue for enterprises engaged in different industrial sectors in China. Annual revenue appears to be a concept capable of comparison with "illegal business operation volume" as defined in Judicial Interpretation No. 19 [2004] and set out at paragraph 7.401 above. The statistics show that the illegal business operation volume threshold of ¥50,000 for counterfeiting one registered trademark in violation of Article 213 of the Criminal Law is equivalent to 0.41 per cent of the average

[593] The Report, contained in Exhibit US-41, was prepared by the "China Copyright Alliance", a coalition of six trade associations that represent several creative industry sectors.

[594] The CCA Report was submitted as a case example of how the thresholds allegedly create a "safe harbour" for commercial scale trademark counterfeiting and copyright piracy and provide "clear guideposts" as to how to avoid the risk of criminal prosecution. It was alleged that the CCA Report shows that when the numerical thresholds are shifted down, commercial operations are adjusted and restructured to ensure that they remain at levels that fall under the thresholds. The CCA Report covers the period January 2006 to November 2007 - the period during which a threshold under Article 217 of the Criminal Law was lowered from 1000 copies to 500 copies (see paragraphs 7.411 and 7.412 above). The CCA Report highlights a congruence in the percentage of seizures below the threshold before and after it was lowered. However, when further data was provided regarding the percentage of seizures below 500 copies before the threshold was lowered, when it was an *irrelevant* number, the Panel was able to observe a (somewhat lesser but still strong) congruence between that percentage and the percentage of seizures below the same level when it *was* the threshold. Therefore, the Panel does not find that the data in the CCA Report supports the conclusion that the commercial operations of infringers are related to the levels of the thresholds. See United States' first written submission, paras 151-161. The further data was provided by the United States in response to Question No. 1 posed by China.

[595] United States' first written submission, para. 157; rebuttal submission, paras 93-97.

[596] The United States alleged in response to an unrelated question that 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": see United States' response to Question No. 62. However, the Panel notes that the phrase "on a commercial scale" qualifies the terms "trademark counterfeiting or copyright piracy" and a legitimate commercial platform does not fall within the scope of either of those terms.

[597] *China Economic Census Yearbook 2004*, edited by the Executive Office of the First National Economic Census Leading Group of the State Council, published in Chinese and English by the China Statistics Press. Extracts from the Volume of Secondary Industry (Section One) and the Volume of Synthesis, including interpretation of main indicators and rules on classification, are reproduced in Exhibit CHN-79.

annual revenue of enterprises engaged in light industry; 0.8 per cent of the average annual revenue of small-size enterprises; and 0.84 per cent of the average revenue of Chinese retail businesses.[598]

7.625 The Economic Census statistics also refer to a concept of the "Individual Operation Household" which is defined as the smallest unit of commerce in Chinese economic statistics. The statistics show that the illegal business operation volume threshold of ¥50,000 for counterfeiting one registered trademark is equivalent to 22.56 per cent of the average annual revenue of Individual Operation Households and 29.44 per cent of the average annual revenue of Individual Operation Households engaged in retail.[599]

7.626 The Panel notes that these calculations are percentages of an average and may be relevant to establishing what is a typical or usual level of commercial activity in a general sense. However, the statistics are highly aggregated and do not refer to any particular products, according to which the benchmark of "a commercial scale" necessarily varies. Moreover, the statistics regarding individual operation households engaged in retail do not address the basic question of whether retail sales by individual operation households are typical or usual in China. Therefore, the Panel does not consider that these statistics are sufficient for it to form a view as to whether the illegal business operation volume thresholds capture all trademark counterfeiting or copyright piracy on a commercial scale in China.

7.627 The United States also submitted other press articles to illustrate points in its first written submission, particularly regarding the calculation of certain thresholds. China objected at the outset arguing that "[t]he Panel can afford little or no weight to such anecdotal and potentially misinformed reports".[600] The United States was puzzled by China's concern at its recourse to newspapers or other media. It recalled its prior attempts to obtain information from China pursuant to Article 63.3 of the TRIPS Agreement. China had declined to provide information and stated instead that its competent domestic IPR authorities had also made relevant information publicly available through their official websites, newspapers, magazines and other proper channels. The United States added that the information in newspapers and magazines is "drawn from a variety of well-established and well-regarded sources".[601]

7.628 The Panel has reviewed the press articles and notes that none of them are corroborated, nor do they refer to events or statements that would not require corroboration. Whilst the publications are reputable, most of these particular articles are brief and are quoted either for general statements or random pieces of information. Most are anecdotal in tone, some repeating casual remarks about prices of fake goods, anonymous statements or speculation. They have titles including *"Fake Pens Write Their Own Ticket", "Chasing copycats in a tiger economy", "Hollywood takes on fake Chinese DVDs", "Film not out yet on DVD? You can find it in China"* and *"Inside China's teeming world of fake goods"*.[602] Most of the press articles are printed in US or other foreign English-language media that are not claimed to be authoritative sources of information on prices and markets in China. There are four press articles from Chinese sources, one from Xinhua News Agency and three from the English-language *China Daily*. Two are quoted simply to demonstrate the existence of certain goods in China[603]; another quotes a vague statement from unnamed "market insiders" on how illegal publishers tend to work[604]; and the other quotes an "insider" for the maximum and minimum prices of

[598] See China's response to Question No. 17.
[599] *Ibid.*
[600] China first written submission, para. 45.
[601] United States' rebuttal submission, para. 98 and fn. 102.
[602] Exhibits US-24, US-30, US-31, US-33, US-34, US-37.
[603] A Xinhua News Agency article refers to goods with high turnover and relatively low cost, in Exhibit US-26, and a *China Daily* article refers to the existence of HDVDs, in Exhibit US-39.
[604] Exhibit US-38.

a range of pirated and genuine goods.[605] One other alleged "recent news account" is not attributed to any source at all.[606]

7.629 The Panel emphasizes that, in the absence of more reliable and relevant data, it has reviewed the evidence in the press articles with respect to a central point in this claim that is highly contested. The credibility and weight of that evidence are therefore critical to the Panel's task. For the reasons set out above, the Panel does not ascribe any weight to the evidence in the press articles and finds that, even if it did, the information that these press articles contain is inadequate to demonstrate what is typical or usual in China for the purposes of the relevant treaty obligation.[607]

7.630 There is no indication that probative evidence on this point would be difficult to obtain. Indeed, it can be noted that more specific information on prices and markets in China is contained in various US exhibits, notably information on prices of products in a report on Cinema and Home Entertainment in China prepared by Screen Digest and Nielsen NRG[608] (submitted in support of the claim regarding the Copyright Law) and in annexes to a letter from Nintendo of America to the United States Trade Representative.[609] The United States did not refer to this evidence in its submissions. Further, in response to a question from the Panel, the United States had no apparent difficulty in providing a translation of a Chinese judicial decision that had been mentioned in one of the press articles.[610]

7.631 The information in the exhibits would not necessarily have been sufficient and, even if it were, it would not be appropriate for the Panel to trawl them for evidence to which the United States did not refer to make the United States' case for it. As the Appellate Body Report in *US – Gambling* states:

> "A *prima facie* case must be based on 'evidence *and* legal argument' put forward by the complaining party in relation to *each* of the elements of the claim. A complaining party may not simply submit evidence and expect the panel to divine from it a claim of WTO-inconsistency. Nor may a complaining party simply allege facts without relating them to its legal arguments."[611]

7.632 For the above reasons, the Panel finds that the United States has not made a prima facie case with respect to the first limb of its claim under the first sentence of Article 61 of the TRIPS Agreement. The Panel will now turn to the second limb of the claim.

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[605] Exhibit US-32.

[606] United States' first written submission, para. 136, citing the price of a *Spider Man 3* DVD.

[607] The Panel's approach is consistent with the approach of other international tribunals, notably the International Court of Justice: see Rosenne, S., *The Law and Practice of the International Court 1920 – 2005*, (M. Nijhoff, 2006), Volume III at para. 257, and Highet, K., "Evidence and Proof of Facts", in Damrosch, L., *The International Court of Justice at a Crossroads*, (Transnational, 1987) cited in the Panel Report in *Australia – Automotive Leather II* at para. 9.65, fn. 210. The Panel's approach in the present dispute is also consistent with the approach in the Arbitrator's Award in *EC – The ACP-EC Partnership Agreement II*, at paras 57-58. Whilst the Appellate Body Report in *Brazil – Retreaded Tyres* referred to a newspaper article in a footnote, it did so after referencing two substantial reports on point, and the point was not central to the findings in that dispute: see Appellate Body Report, para. 207, fn. 393, citing the Panel Report, para. 7.201, fn. 1358.

[608] United States' first written submission, para. 200, citing Exhibit US-49.

[609] United States' first written submission, paras 146 and 153, citing Exhibit US-36.

[610] Exhibit US-61 referred to in the United States' first written submission, para. 120 and a newspaper article in Exhibit US-25.

[611] Appellate Body Report in *US – Gambling*, para. 140 (footnotes omitted).

(x) Other indicia – physical evidence

7.633 With respect to the second limb of this claim, the United States alleges that China's value and volume thresholds are tied to finished goods and therefore ignore other indicia of commercial scale operations, such as the presence of unfinished products and fake packaging.[612] The Panel will assess whether these other indicia *can* be taken into account by China's thresholds and, to the extent that they cannot, whether the term wilful trademark counterfeiting or copyright piracy "on a commercial scale" *requires* China to take these other indicia into account.[613]

7.634 This argument is premised on an assertion that China's criminal thresholds "focus[] solely on business volume, copy, and profit thresholds that can only be met by counting finished goods".[614] It is not clear why the United States considers that thresholds expressed in these terms are tied exclusively to finished goods. Its concern may relate to the definition of "illegal business operation volume" in Article 12(1) of Judicial Interpretation No. 19 [2004][615] and to the use of the term 张 (份) in one threshold[616] but this is not explained. It is not clear how its concern relates to "illegal gains".[617] In sum, the United States does not sufficiently relate its assertion to the measures at issue.

7.635 Further, the United States has challenged China's criminal thresholds as established by the Criminal Law, "in particular" certain Articles establishing the substantive crimes of infringing intellectual property rights and relevant Judicial Interpretations.[618] However, the United States has not properly addressed any other provisions of the Criminal Law, such as the general provisions, that could have a bearing on questions of evidence. Having cast the entire Criminal Law as a relevant measure, it is incumbent on the United States to explain how the thresholds established by that Law operate. A complainant cannot avoid the burden of proof with respect to other apparently relevant provisions of the Law at issue, particularly when it identified that whole Law in its request for establishment of a panel, simply by neglecting to address those provisions, leaving it to the respondent to assert their relevance.

7.636 Instead, the United States provided a copy of Articles 1 to 12 of the Criminal Law, without comment, and responded only briefly to the arguments of the respondent on the offences of preparation for a crime and attempted crime established by Articles 22 and 23 of the Criminal Law. When asked whether Articles 22 and 23 of the Criminal Law permit courts to take into account other physical evidence, such as unfinished products and packaging (which the United States asserts that they cannot), the United States stated as follows:

> "The United States is not aware of the extent to which the offenses of preparation and attempt permit courts to convict an offender based on physical evidence other than the infringing products themselves, such as unfinished products and packaging, for the purpose of meeting the thresholds."[619]

7.637 The Panel recalls its findings at paragraphs 7.434 to 7.437 above regarding the offences of preparation for a crime and attempted crime established by Articles 22 and 23 of the Criminal Law. The United States does not dispute that these general provisions apply to the substantive crimes of infringing intellectual property rights, and acknowledges that certain courts (whose decisions were

[612] United States' first written submission, paras 113 and 143 to 147.
[613] See paragraph 7.496 above.
[614] United States' first written submission, para. 143. The same submission also referred to China's reliance on "value and volume" thresholds tied to finished goods: see para. 113.
[615] See paragraph 7.401 above.
[616] See paragraph 7.411 above.
[617] United States' first written submission, para. 143, cf. para. 144.
[618] See the request for establishment of a panel, attached as Annex D-1 to this report.
[619] United States' response to Question No. 8.

submitted by China) have applied them accordingly.[620] Therefore, the United States does not sufficiently explain the operation of the measures at issue to support its assertion.

7.638 To the extent that the crimes of preparation for a crime and attempted crime provide for criminal prosecution and sanctions, it is not dispositive of the issue whether they may be taken into account in relation to the crimes set out in Articles 213, 214, 215, 217 and 218 of the Criminal Law. China's obligation under the first sentence of Article 61 is to provide for criminal procedures and penalties to be applied. That obligation is indifferent as to the means by which China provides for such procedures and penalties to be applied, whether by means of substantive crimes only or by means of accessorial liability in some cases.

7.639 The United States cited in support of its concerns regarding physical evidence data collected by Nintendo of America in an anti-counterfeiting campaign in China. The data shows that some seizures of infringing products included product components, packaging and materials and implements.[621]

7.640 The Panel notes that the Nintendo data does *not* show whether China provides for criminal procedures and penalties to be applied to cases where the authorities find only product components, packaging and materials and implements, nor does the United States sufficiently relate the seizure data to that issue.

7.641 The Panel notes that Nintendo emphasized its concerns regarding product components, packaging and materials and implements through a discussion of three criminal cases. China submitted the judgement of a court in one of these cases.[622] The judgement shows that the court did take into account both finished and semi-finished infringing products in its evaluation of the substantive crime under Article 213 of the Criminal Law. That case was decided before the entry into force of Judicial Interpretation No. 19 [2004], but it is not clear if the interpretation of the thresholds in that Judicial Interpretation was the reason why the authorities in the two later cases did not (allegedly) take unfinished products into account.

7.642 The United States argues that the court should have taken into account unfinished products that do not in fact infringe, and materials and implements.[623] However, given that the court did take account of all products that were trademark-infringing, and not simply finished products, it is not clear why or if the United States considers that the possession of non-infringing items should have been sufficient for conviction of an intellectual property crime.

7.643 China submits another judgement that, in its view, shows that a court took into account unfinished components in its evaluation of a substantive crime under Article 213. The court also considered machines and scales as evidence that the components were to be used to produce counterfeit products.[624]

7.644 The United States dismisses this judgement, arguing that the reasoning is confused and that the case is an "outlier".[625] However, the United States does not deny that the court took the unfinished components into account and, given that it has provided no information on judicial decisions on point, it is unable to substantiate its assertion that the case is in any way exceptional. The United States does

[620] United States' rebuttal submission, para. 91.
[621] United States' first written submission, para. 146, citing Nintendo data in Exhibit US-36.
[622] Exhibit CHN-16.
[623] United States' rebuttal submission, para. 92.
[624] Exhibit CHN-15, to which China referred in its rebuttal submission, para. 32.
[625] United States' rebuttal submission, para. 92.

point out that one other judicial decision submitted by China shows that a court did not count semi-finished products, packaging and tools[626], which the Panel has noted.

7.645 China submits that the inchoate crimes of preparation of a crime, and attempted crime, apply to all substantive crimes in Part Two of the Criminal Law, including the crimes of infringing intellectual property rights. China argues that these inchoate crimes allow courts to take into account unsold goods, with respect to crimes of selling, and unfinished products, with respect to crimes of production.[627]

7.646 The Panel recalls its findings at paragraphs 7.436 and 7.437 above regarding the construction of the measures at issue. These are confirmed by the judicial decisions submitted in evidence showing courts applying either or both of the general provisions in Articles 22 and 23 of the Criminal Law to various crimes of infringing intellectual property rights.[628] Specifically, one of the courts gave its reason for applying Article 23 and, hence, sentencing the infringer to a lesser penalty, which was that the infringer had not finished production at the time he was apprehended.[629]

7.647 The United States submits that Articles 22 and 23 of the Criminal Law do not apply to evidence of completed crimes, such as "worn moulds" for pressing pirated products or counterfeit marks or other materials and implements of such an operation.[630]

7.648 China replies that its authorities consider materials and implements and other reliable indicia in determining criminal infringement, and would consider as relevant evidence a "worn mould" that showed with reasonable certainty that it had produced sufficient number of items to cross the criminal threshold. China refers to a judicial decision in which the court considered the presence of materials and implements.[631]

7.649 The Panel notes that in the case referred to by China the court took into account packaging and tools as evidence of the intended use of product components seized on site, so that the value of the product components was included in the assessment of illegal business operation volume. The tools, though relevant, did not substitute for the thresholds.

7.650 In any event, the Panel considers that the United States' allegation regarding physical evidence relates to the evidence sufficient to initiate a criminal prosecution more than to the definition of the crime itself. Article 61 of the TRIPS Agreement does not address evidence. The first sentence of Article 61 addresses the infringing activity in respect of which the minimum standards must apply. Evidence, including in criminal procedures, is mentioned in Article 41.3, but that provision has no bearing on this claim.

7.651 Section 5 of Part III of the TRIPS Agreement, on criminal procedures, can be contrasted with Section 2, on civil and administrative procedures and remedies, which makes mention of evidence in Article 42 and contains a dedicated provision addressing certain specific issues regarding evidence in

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[626] Exhibit CHN-9, to which the United States referred in its rebuttal submission, para. 93. The case concerns the order, manufacture and sale of several thousand units of counterfeit alcoholic beverages over the course of six months. At the time of arrest, 1,480 units of manufactured counterfeit alcoholic beverage and more than 4,000 bottles of semi-finished beverage were seized, with a large amount of packaging materials and tools for manufacturing counterfeit products. The judicial decision makes no mention of the semi-finished products, packaging materials or tools in the calculation of the thresholds of illegal business operation volume for the purposes of conviction under Article 213 of the Criminal Law.

[627] China's rebuttal submission, paras 39-41, referring to Exhibits CHN-12, CHN-14, CHN-175.

[628] Exhibits CHN-12, CHN-14 and CHN-175.

[629] Exhibit CHN-175.

[630] United States' rebuttal submission, para. 85.

[631] China's rebuttal submission, para. 32, referring to Exhibit CHN-15.

Article 43. Even Article 43 does not address the detailed issue of sufficiency of evidence. Rather, Section 2 leaves such questions to the judicial authorities who weigh that issue in the exercise of their authority to order the remedies set out in Articles 44 to 46. Given the brevity of Section 5, which devotes two sentences to acts of infringement and two sentences to remedies (or penalties), it would be surprising if it was intended to create a broader obligation addressing issues of evidence and procedure. The terms used in Article 61 do not suggest that it was so intended. The different phrasing of the obligation to "provide … to be applied" in the first sentence does not have a bearing on this issue.

7.652 For all of the above reasons, the Panel does not consider that the United States has made a prima facie case with respect to other indicia of infringement, such as physical evidence including product components, packaging and materials or implements.

(xi) Other indicia – impact on the commercial marketplace

7.653 With respect to the second limb of this claim, the United States also alleges that China's thresholds are tied to finished goods and therefore ignore other indicia of commercial scale operations, such as the impact that the piracy or counterfeiting has on the commercial marketplace and by extension, right holders.[632] The Panel will assess whether impact on the commercial marketplace can be taken into account by China's thresholds and then whether the term wilful trademark counterfeiting or copyright piracy "on a commercial scale" requires China to take into account impact on the commercial marketplace.[633]

7.654 The United States raises a concern in support of this argument related to the Internet and digital technological advancements that can permit commercial piracy and counterfeiting that creates major damage to a market.[634] The United States mentions the example of HDVDs (high-definition digital video discs) that can hold up to ten episodes of a TV series or several films.[635]

7.655 The Panel notes that the United States has not attempted to substantiate its assertion regarding HDVDs. This example appears to be based on the view that the term 张 (份) in the thresholds ("copies" for the sake of simplicity) refers only to physical discs and cannot be applied in any other way in a novel situation. There is no evidence on the record indicating that the thresholds have ever been applied to HDVDs, so this example is merely speculation based on the indirect reference to flat objects in the word 张 and to copies in the word 份.[636] This example can be compared to an assertion that a copyright law does not provide protection to computer programs simply on the basis that the legislation refers to the term "literary and artistic works" and computer programs are not obviously literary or artistic. Some evidence is required that the authorities could not or would not apply that measure in the appropriate manner to new technology.[637] The Panel notes China's assertion that, at such time as this issue arises for consideration, its authorities can apply the threshold in terms of the number of films or episodes on each disc.[638]

7.656 More generally, the argument with respect to new technology appears to be premised on the view that a determination of whether trademark counterfeiting or copyright piracy is "on a

[632] United States' first written submission, paras 143 and 148 to 149; rebuttal submission, para. 112.
[633] See paragraph 7.496 above.
[634] United States' first written submission, para. 149; rebuttal submission, para. 112.
[635] The United States refers to a *China Daily* article reproduced in Exhibit US-39.
[636] See note 387 above.
[637] The Panel notes that, in this regard, the parties did not refer to subparagraph (17) of the first paragraph of Article 10 of the Copyright Law which provides for other rights for a copyright owner due to new technology. The United States' first written submission, para. 64, referred to this in relation to the Copyright Law.
[638] China's rebuttal submission, para. 25; response to Question No. 6.

commercial scale" must be able to take into account the impact of piracy or counterfeiting on right holders. However, the Panel recalls its findings at paragraph 7.577 above regarding the interpretation of the term "on a commercial scale". Read in context, that term refers to "wilful trademark counterfeiting or copyright piracy", which are acts of infringement. The benchmark of a typical or usual commercial activity is relevant to the assessment of whether counterfeiting or piracy is covered by Article 61. The impact is neither part of the act of infringement nor the benchmark of "on a commercial scale". Therefore, it does not appear to be a relevant consideration.

7.657 The Panel emphasizes that the terms used in the first sentence of Article 61, in particular "commercial", are technology-neutral. A "commercial scale" can apply to various forms of commerce and, hence, various means of infringement. The specific forms of commerce are not static but adapt to changing forms of competition due to technological development and the evolution of marketing practices.[639] The Panel sees no reason why those forms of commerce should be limited to the forms of commerce that existed at the time of negotiation of the TRIPS Agreement. Accordingly, the application of the term "commercial scale" can adjust to different situations, and refer to a different relative magnitude or extent, degree or proportion, depending on the facts.[640] However, subsequent technological developments do not alter the considerations relevant to the interpretation of the terms used in Article 61.

7.658 The United States also mentions an example of a "high-value niche market item" such as a specialized software application. This example refers to a *Seattle Times* newspaper article titled *"Inside China's teeming world of fake goods"*.[641] The Panel accepts that the market for certain products may be small, but considers that a single, anecdotal newspaper article is insufficient evidence to demonstrate what is a commercial scale for such a product. To the extent that this article concerns the impact on the right holder, it has been addressed in the second limb of the claim.

7.659 The Panel observes a link between this argument and the issue of large-scale infringement with no commercial purpose. The United States originally submitted that the term "commercial scale" included the following:

> "Thus, the concept of 'commercial scale' extends … 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."[642]

7.660 The United States indicated that this was not the focus of its submission, and confirmed that in this dispute it does not challenge the thresholds on the basis that they require a "profit-making purpose".[643] In response to a question from the Panel, the United States confirmed that its own Copyright Law was only amended in 1997 to deal with the problem of massive infringement, such as via the Internet, even if the infringing activity is not necessarily pursued for financial gain.[644]

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[639] See also the Panel Reports in *Canada – Pharmaceutical Patents* (at para. 7.55) and *US – Section 110(5 Copyright Act* (at para. 6.187) with respect to the phrase "normal exploitation" in Articles 30 and 13 of the TRIPS Agreement, respectively.

[640] The United States' concern regarding the volume of distribution by means of digital technology and the Internet is therefore relevant to the assessment of a "commercial scale": see United States' rebuttal submission, para. 112.

[641] United States' first written submission, para. 148, referring to Exhibit US-37.

[642] United States' first written submission, para. 110.

[643] United States' first written submission, paras 110 and 133, fn. 96; response to Question No. 59. See paragraphs 7.449 to 7.450 above, showing that Articles 213, 214, 217 and 218 of China's Criminal Law take account of a profit-making purpose.

[644] United States' response to Question No. 67.

7.661 For all the above reasons, the Panel does not consider that the United States has made a prima facie case with respect to impact on the commercial marketplace.

7.662 The Panel wishes to emphasize that its findings should not be taken to indicate any view as to whether the obligation in the first sentence of Article 61 of the TRIPS Agreement applies to acts of counterfeiting and piracy committed without any purpose of financial gain.

(xii) Miscellaneous factors

7.663 The United States asserted that the breadth of the term "on a commercial scale" presumes that a wide range of considerations should be probative of "commercial scale".[645] However, it did not submit argument in support of any other considerations besides those discussed above.

7.664 The Panel recalls its finding at paragraph 7.602 above that, if it is alleged that a Member's method of implementation does not provide for criminal procedures and penalties to be applied in cases in accordance with the first sentence of Article 61 of the TRIPS Agreement, that allegation must be proven with evidence.

7.665 The United States briefly mentioned various factors and examples, most raised by third parties, and apparently considers that these may be relevant to a determination of a "commercial scale".[646] It gave the example of "the manufacture of prototypes to test the infringer's production equipment"[647] but did not explain why this would not attract criminal liability under the Criminal Law, including its general provisions, or why it would constitute trademark counterfeiting or copyright piracy. It did not explain why "marketing and soliciting of business" would not attract criminal liability under the Criminal Law, including its general provisions, or why it would constitute trademark counterfeiting or copyright piracy. It did not explain why a "previous history of infringement" could not be covered by the threshold of "other serious circumstances".

7.666 Further, Japan, supported by the European Communities, and with whom the United States agreed, referred to a possible "organizational element" that can be taken into account in determining a commercial scale.[648] The Panel notes that Japan included this factor in its interpretation of "commercial scale" on the basis of a definition of "commerce" as a countable noun in French and Spanish that means, basically, a shop. However, the English language does not include the word "a commerce" in that sense. As the English version of the TRIPS Agreement is equally authentic[649], the Panel does not consider this aspect of Japan's interpretation correct. Further, if a typical or usual commercial activity included an element of organization, in terms of cooperation with other parties, the United States has not explained why the general provisions of China's Criminal Law (discussed at paragraphs 7.439 to 7.446 above) that allow aggregation of infringing acts by different persons cooperating in a joint crime, are inadequate, beyond the issue of the level of the thresholds, or why the cumulation of infringements over time, or cumulation of infringing products on different premises within the definition of "illegal business operation volume" would be inadequate.

7.667 Therefore, the United States did not relate these factors sufficiently to the measures at issue or to its claim to discharge its burden of proof.

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[645] United States' first written submission, para. 113; see also rebuttal submission, para. 38.
[646] United States' response to Question No. 16; rebuttal submission, fn. 35 and fn. 36.
[647] United States' response to Question No. 62.
[648] See note 415 and United States' rebuttal submission, para. 38.
[649] See the final clause of the WTO Agreement.

7.668 The Panel recalls its findings at paragraphs 7.652, 7.661 and 7.667 above and finds that the United States has not made a prima facie case with respect to the second limb of its claim under the first sentence of Article 61 of the TRIPS Agreement.

(xiii) Conclusion with respect to the claim under the first sentence of Article 61

7.669 In light of the Panel's findings at paragraphs 7.632 and 7.668 above, the Panel concludes that the United States has not established that the criminal thresholds are inconsistent with China's obligations under the first sentence of Article 61 of the TRIPS Agreement.

4. Claim under the second sentence of Article 61 of the TRIPS Agreement

(a) Main arguments of the parties

7.670 The United States claims that, as China's criminal measures do not comply with the first sentence of Article 61 of the TRIPS Agreement, they are accordingly also inconsistent with China's obligations under the second sentence of that Article. In the United States' view, China can not make the necessary remedies "available" or sufficient to deter piracy and counterfeiting.[650]

7.671 China responds that the obligation in the second sentence of Article 61 is supplementary to, and contingent on, that of the first sentence of that Article. The obligation in the second sentence is only triggered in the event that a Member has an obligation under the first sentence to provide criminal procedures and penalties.[651]

(b) Main arguments of third parties

7.672 Australia argues that Article 61 creates an obligation of result, namely to put in place penalties that are sufficient to actively discourage others from engaging in such acts. A Member must actively prosecute and punish such acts. The question whether punishments are sufficient to provide such a deterrent is assessed in light of the circumstances in a Member's territory but it is open to another Member to challenge the adequacy of a Member's remedies to achieve the deterrent effect under the DSU.[652]

7.673 Brazil notes that the second sentence of Article 61 refers not only to imprisonment but also to monetary fines. In China, low-level infringement seems to be punishable at least with monetary fines following administrative proceedings. It seems to be overly formalistic to assume that because a domestic legal system qualifies monetary fines as administrative penalties, the core substantive issue of the deterrence capability of the remedy should be put aside.[653]

7.674 Canada submits that China's thresholds may make available administrative remedies, but they preclude the application of criminal penalties in cases that fall below the thresholds for criminal liability. The thresholds create "safe harbours" in which professional infringers are free to carry out wilful trademark counterfeiting and copyright piracy without risk of imprisonment or monetary fine. Rather than deterring infringement, the thresholds provide infringers clear parameters for committing wilful trademark counterfeiting or copyright piracy with immunity.[654]

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[650] United States' first written submission, paras 164-166.
[651] China's first written submission, paras 144-147.
[652] Australia's third party written submission, para. 25.
[653] Brazil's third party written submission, paras 39-42.
[654] Canada's third party written submission, para. 12.

(c) Consideration by the Panel

7.675 The Panel observes that the United States has made this claim contingent upon the outcome of its claims under the first sentence of Article 61 of the TRIPS Agreement. Additional findings regarding this claim under the second sentence of Article 61 would not contribute further to a positive solution to this dispute. Therefore, it is unnecessary for the Panel to rule on this claim.

5. Claim under Article 41.1 of the TRIPS Agreement

(a) Main arguments of the parties

7.676 The United States claims that China has failed to make the procedures and penalties required by the first and second sentences of Article 61 "available" as required by Article 41.1 of the TRIPS Agreement.[655]

7.677 China responds that the United States has failed to show that China breaches its obligations under Article 61 and therefore fails to show that China breaches its obligations under Article 41.1.[656]

(b) Main arguments of third parties

7.678 Argentina submits that China's measures do not appear to be inconsistent with Article 41.1 of the TRIPS Agreement. Article 41.1 should be read in light of Article 1.1, which provides flexibility in implementation; Article 41.2 which requires Members to ensure that enforcement procedures are fair and equitable; and Article 41.5 which renders the obligation in Article 41.1 relative, not absolute.[657]

7.679 Canada refers to its arguments regarding the claims under Article 61. Further, the fact that "a plethora of counterfeit and pirated goods continues to be produced, reproduced and distributed in China, and exported from China", makes it clear that China does not provide effective action against wilful acts of infringement on a commercial scale and does not provide remedies that deter further infringements, contrary to Article 41.1.[658]

(c) Consideration by the Panel

7.680 The Panel observes that this claim is consequent upon the outcome of the claims regarding the criminal measures under Article 61 of the TRIPS Agreement. Additional findings regarding this claim under Article 41.1 of the TRIPS Agreement would not contribute further to a positive solution to this dispute. Therefore, it is unnecessary for the Panel to rule on this claim.

6. Conclusions with respect to the criminal thresholds

7.681 The Panel recalls its conclusion at paragraph 7.669 above that the United States has not established that the criminal thresholds are inconsistent with China's obligations under the first sentence of Article 61 of the TRIPS Agreement.

7.682 The Panel exercises judicial economy with respect to the claims under Article 41.1 of the TRIPS Agreement and under the second sentence of Article 61 of the TRIPS Agreement (with respect to the criminal thresholds).

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[655] United States' first written submission, paras 167-169.
[656] China's first written submission, paras 148-150.
[657] Argentina's third party written submission, paras 30-37.
[658] Canada's third party written submission, para. 13.

VIII. CONCLUSIONS AND RECOMMENDATION

8.1 For the reasons set out in this Report, the Panel concludes as follows:

(a) the Copyright Law, specifically the first sentence of Article 4, is inconsistent with China's obligations under:

(i) Article 5(1) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement; and

(ii) Article 41.1 of the TRIPS Agreement;

(b) with respect to the Customs measures:

(i) Article 59 of the TRIPS Agreement is not applicable to the Customs measures insofar as those measures apply to goods destined for exportation;

(ii) the United States has not established that the Customs measures are inconsistent with Article 59 of the TRIPS Agreement, as it incorporates the principles set out in the *first* sentence of Article 46 of the TRIPS Agreement; and

(iii) the Customs measures are inconsistent with Article 59 of the TRIPS Agreement, as it incorporates the principle set out in the *fourth* sentence of Article 46 of the TRIPS Agreement; and

(c) the United States has not established that the criminal thresholds are inconsistent with China's obligations under the first sentence of Article 61 of the TRIPS Agreement.

8.2 The Panel exercises judicial economy with respect to:

(a) the claim under Article 5(2) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement; and the claims under Article 61 of the TRIPS Agreement (with respect to the Copyright Law); and

(b) the claims under Article 41.1 of the TRIPS Agreement and under the second sentence of Article 61 of the TRIPS Agreement (with respect to the criminal thresholds).

8.3 Under Article 3.8 of the DSU, in cases where there is an infringement of the obligations assumed under a covered agreement, the action is considered prima facie to constitute a case of nullification or impairment. China did not succeed in rebutting that presumption. Accordingly, the Panel concludes that, to the extent that the Copyright Law and the Customs measures as such are inconsistent with the TRIPS Agreement, they nullify or impair benefits accruing to the United States under that Agreement.

8.4 In light of these conclusions, the Panel recommends pursuant to Article 19.1 of the DSU that China bring the Copyright Law and the Customs measures into conformity with its obligations under the TRIPS Agreement.

Concluding remark

8.5 In this dispute, the Panel's task was not to ascertain the existence or the level of trademark counterfeiting and copyright piracy in China in general nor to review the desirability of strict IPR

enforcement. The United States challenged three specific alleged deficiencies in China's IPR legal system in relation to certain specific provisions of the TRIPS Agreement. The Panel's mandate was limited to a review of whether those alleged deficiencies, based upon an objective assessment of the facts presented by the parties, are inconsistent with those specific provisions of the TRIPS Agreement.

ANNEX A

SUBMISSIONS OF THE UNITED STATES

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ANNEX A–1

EXECUTIVE SUMMARY OF THE FIRST WRITTEN SUBMISSION OF THE UNITED STATES

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' 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 (US$6,925), or "illegal gains" of more than RMB 30,000 (US$4,155).

28. Turning first to the RMB 50,000 (US$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 (US$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 (US$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 (US$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 (US$6,925); "illegal gains" of more than RMB 30,000 (US$ 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 (US$6,925); "illegal gains"of more than RMB 30,000 (US$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 (US$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 (US$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 (US$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 US 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]thout 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 US 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.

ANNEX A–2

EXECUTIVE SUMMARY OF THE ORAL STATEMENT OF THE UNITED STATES AT THE FIRST SUBSTANTIVE MEETING

I. CHINA'S CRIMINAL IPR THRESHOLDS FOR CRIMINAL PROCEDURES AND PENALTIES

1. While Part III of the TRIPS Agreement deals with a number of enforcement procedures, such as civil, border, and administrative measures, Article 61 is the only provision that focuses on criminal penalties and procedures. And conversely that also means that only criminal penalties and procedures can fulfill the obligations in Article 61.

2. The words "at least" in the first sentence of Article 61 lay a floor for WTO Members. 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. China appears to argue that this Panel's scrutiny of its implementation of the TRIPS Agreement standards on criminal procedures and penalties is somehow inappropriate because it concerns criminal law. However, like all WTO Members, China has agreed to ensure that its criminal laws against piracy and counterfeiting meet TRIPS Agreement standards.

3. China also appears to argue that Article 1.1 and Article 41.5 permit it to "define" the standards of Article 61 based on its own method of implementation and its own enforcement resource constraints. Article 1.1 deals with the *method* of implementing China's TRIPS Agreement obligations, not *whether* they should implement them in the first place. Article 41.5 is concerned with similar issues. Articles 1.1 and 41.5 do not alter the obligations in Article 61, and China must implement Article 61 in a way that respects its terms.

4. Turning to "on a commercial scale" in Article 61: *First*, by using 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 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.

5. According to China, the US position is that commercial scale only means commercial purpose. That is not the US view; indeed, such an interpretation would read the word "scale" out of the term. That said, an infringer engaged in pursuing financial gain in the marketplace is acting on a "scale" that is "commercial". And, the "scale" of what is "commercial" in each market will vary by many factors, such as the object of the infringement and the market for the infringed items.

6. While China alleges that we wrongly interpret "commercial scale" by looking at the ordinary meaning of the individual words "commercial" and "scale", the US interpretation is based on the customary rules of interpretation of public international law.

7. China proposes to replace the term "commercial scale" with a phrase that TRIPS Article 61 does not contain: "a significant magnitude of activity," but this proposal reads "commercial" out of Article 61. China relies upon a discussion of this term by a WIPO Committee of Experts on Counterfeiting and Piracy in 1988. It is unclear what status this document has under the *Vienna Convention* rules; and in any case, the WIPO Committee's document provides confirmation of the interpretation suggested by the United States.

8. China fails to make criminal procedures and penalties available for all wilful trademark counterfeiting and copyright piracy on a commercial scale because its criminal IPR thresholds create a safe harbor for pirates and counterfeiters. The first fundamental problem is that China's thresholds are set at such a level, and calculated in such a way, that they preclude prosecution or conviction of infringing activity involving values or volumes that are below the thresholds but are still "on a commercial scale."

9. With respect to the Article 213 trademark counterfeiting thresholds, there are many classes of commercial scale activity that take place under those thresholds. Indeed, the "illegal business volume" threshold directs Chinese prosecutors and judges to base this calculation on the prices of counterfeit goods as a default. As many commercial activities in legitimate markets, such as personal care products, take place where the value of the goods involved is less than the RMB 50,000 "illegal business volume" thresholds, the commercial scale activities involving *counterfeit* goods of these types will routinely involve values below that threshold.

10. Another example is demonstrated by the RMB 30,000 "illegal gains" threshold. This threshold can similarly miss many classes of commercial scale activity, and thus, requiring a profit level of RMB 30,000 will not capture all "commercial scale" activities.

11. Similar safe harbor problems exist with the Articles 214 and 215 thresholds as well as China's thresholds for copyright piracy. For example, the Article 217 500-copy threshold excludes acts of commercial scale piracy, as a copyright pirate that makes 499 reproductions or a retailer that stocks 499 copies in a store could not be prosecuted or convicted on that basis under Article 217.

12. The second fundamental problem is that Chinese authorities must rely on a limited set of one-size-fits-all tests to find commercial scale counterfeiting and piracy that can be subject to criminal prosecution or conviction. A range of considerations should be probative of "commercial scale," but China's rigid criminal thresholds preclude their use. They are ill-adapted to the diversity of commercial activity and allow commercial scale counterfeiting and piracy to escape prosecution.

13. China does not explain or justify how its boundaries of criminal liability capture all commercial-scale counterfeiting and piracy. China's choices for its *non-IPR* criminal thresholds has no bearing on this Panel's assessment of whether China meets its obligations under *Article 61 of the TRIPS Agreement.* China's argument that its "evidentiary" provisions should not be subject to Article 61 scrutiny is without merit; whether calculated over one hour or over many years, China's thresholds create a safe harbor. China concedes that if an administrative penalty in a prior seizure action is applied (often China's preferred remedy), it wipes the slate clean and those prior seizures could not be counted on to meet the thresholds.

14. The CCA Report submitted by the United States illustrates the safe harbor created by China's thresholds. *First*, it provides an example of the scale of commerce in China for certain pirated products. *Second*, it shows significant quantities of retail sales of infringing product take place in China at levels below China's thresholds. *Third*, a comparison of two sets of "below-the-thresholds" seizure charts in the US submission shows 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.

15. China's criminal IPR thresholds are also inconsistent with the second sentence of Article 61 and Article 41.1. China confirms that if the Panel finds that China's criminal IPR thresholds are inconsistent with the first sentence of Article 61, it must also find an inconsistency with the second sentence of Article 61 and Article 41.1. We also disagree with China's unsupported assertion that the United States bears an "especially high burden of proof in advancing this claim."

II. CHINA'S BORDER MEASURES FOR DISPOSAL OF CONFISCATED GOODS

16. 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 two of the sentences in Article 46. *First*, a Member's competent authorities for border enforcement "shall have the authority to order that goods that they have found to be infringing be ... disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, or ... destroyed." *Second*, "[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."

17. Contrary to Article 59, China's Customs authorities lack the requisite authority to order the destruction or disposal of infringing goods in accordance with these Article 46 principles. This is because Article 30 of the Customs IPR Implementing Measures, which implements Article 27 of the State Council Customs IPR Regulation, sets out a compulsory sequence of steps that Customs must follow in deciding how to treat seized goods that it determines infringe intellectual property rights.

18. China states that Article 59 does not require a grant of unconditional authority to its agencies. However, the TRIPS rules do not *require* China to destroy or dispose of all such goods in accordance with the principles in the first sentence of Article 46. The pertinent issue is whether Customs is permitted by law to make decisions in particular circumstances. "Authority" means that China Customs should have the *power* to choose among any of the options – in accordance with the Article 46 principles – from the outset when the goods are found to be infringing, and thereafter until the goods are finally dealt with.

19. In the initial step of the compulsory hierarchy, Customs must decide whether the infringing goods can be used for "public good." If the answer is yes, Customs must either give the goods to a "public welfare organization" or Customs may instead allow the right holder to purchase the goods "for compensation."

20. China has confirmed that donation to "public welfare organizations" will not be available if the goods are unsuitable for donation. In cases where the goods are suitable, the United States is pleased to learn that China Customs has donated seized goods to charities such as the Red Cross of China. China further cites to a general obligation to "implement necessary supervision" when goods are used for "social welfare purposes." However, Article 17 of the Law on Donation for Public Welfare (Exhibit US–59) authorizes public welfare organizations to sell donated goods on the market in some cases. This demonstrates that China's donation option does not ensure that the goods remain outside the channels of commerce and avoid harm to the right holder.

21. Where donation is not appropriate, Chinese authorities must offer the infringing goods for sale to the right holder. This mandated action does not permit disposal "in such a manner as to avoid any harm caused to the right holder," as Article 46 requires, as by paying for such goods, right holders will suffer financial harm in the form of payment for goods that infringe their rights.

22. Where transfer to a public welfare organization is unavailable, and the right holder does not purchase the infringing goods, the Customs authorities must turn to the public auction step. China's public auction does not comport with the principles incorporated into Article 59. Putting seized goods up for public auction introduces them into the channels of commerce and does not dispose of them in a manner that avoids any harm to the right holder. China does not contest that its public auction is introduction into the channels of commerce. On these grounds alone, however, the mandatory auction provided by China's measures is inconsistent with the Article 46 principles.

23. China asserts that right-holders' formal right to comment before the auction assists in avoiding harm to the right holder. However, that is not a right to *prevent* the goods from being auctioned. A public auction can cause great harm to the right holder, since the infringer or importer can simply purchase the seized goods at the auction.

24. With respect to counterfeit trademark goods in particular, this public auction step is also inconsistent with the principle in the fourth sentence of Article 46, which provides that goods can be introduced into the channels of commerce after removal of the unlawfully affixed trademarks only "in exceptional cases." China's claim that the obligation is not a principle within the meaning of Article 59, is at odds with its plain meaning. China does not cite limiting language in Article 59 that selectively incorporate the obligations in Article 46.

25. Only if auction is not possible does China Customs gains the power to destroy the infringing goods. We recall that China's measures ensure this step will not be reached if any of the previous options are available. Therefore, in those situations, Chinese customs authorities are not, as a matter of Chinese law, authorized to destroy the infringing good.

26. China argues that it has "substantial discretion" to determine that an infringing good is not suitable for the disposal options and therefore has authority to order destruction. However, China's Customs Implementing Measures states that when certain facts are present, Customs officials must dispose of the goods only in the manner stipulated. In each of those circumstances, Chinese customs authorities lack the authority to order the destruction of infringing goods.

III. ARTICLE 4 OF CHINA'S COPYRIGHT LAW

27. Article 4, first sentence, provides that "[w]orks the publication or distribution of which is prohibited by law shall not be protected by this Law." China's first submission has not resolved a number of concerns about the *legal* operation of Article 4 – the text of which provides a clear and straightforward denial of copyright protection. China's focus on the actions of its NCAC leaves unresolved the concerns that, as a matter of law, the first sentence of Article 4 denies copyright protection to works whose content is still being reviewed.

28. Most importantly, the Chinese submission appears to concede that Article 4 is TRIPS-inconsistent. China admits that the first sentence of Article 4 denies protection to works whose contents are prohibited. Moreover, the NCAC confirms that, for the purpose of administrative proceedings, Article 4 denies copyright protection to "works whose contents are illegal." China therefore appears to confirm that it denies copyright protection to works containing illegal content that Chinese authorities determine is prohibited by law.

29. Indeed, contrary to China's obligations under TRIPS Article 9.1 (and the provisions of the Berne Convention referenced in Article 9.1), Article 4 denies copyright protection to works that are entitled to such protection. Berne Article 2(1) states that works protected by the Convention include "*every* production in the literary, scientific and artistic domain . . ." (emphasis added), and Article 2(6) further states that these works must enjoy copyright protection everywhere that the Berne Convention applies. Article 4's blanket exclusion for certain illegal works, therefore, is inconsistent with the Berne Convention.

30. Moreover, because Article 4 denies copyright protection to certain works, the set of exclusive rights in Article 10 of China's Copyright Law are also denied to such works. As a result, Article 4 does not comply with the requirements of Berne Article 5(1), which specifies certain guaranteed exclusive rights. And indeed, without copyright protection, right holders cannot enforce their rights in the work. Therefore, authors of the works also do not benefit from the remedies for infringement

specified in Articles 46 and 47 of the Copyright Law. Accordingly, China is not in compliance with its obligations under Article 41.1 and Article 61, first and second sentence, of the TRIPS Agreement.

31. China has not addressed the US concerns about the impact of content review on copyright protection. *First*, the United States is not in a position to accept that the NCAC's actions are a definitive interpretation of Article 4, at least with respect to China's TRIPS obligations to afford criminal and civil remedies for copyright infringements heard by the courts and procuratorate. *Second*, with respect to the *Zheng Haijin* case, it is not clear why this document is responsive to the US arguments; according to the NCAC, the publisher in question had violated Chinese laws on book publication numbers, not Chinese laws regarding content. *Third*, courts apply the law in cases under adjudication, and not the NCAC. In fact, China's Supreme People's Court issued a guidance document (Exhibit US-60) in this case, and appears to have considered that copyright protection was contingent on the work's successful completion of content review.

32. To the extent that the first sentence of Article 4 makes the exercise and enjoyment of copyright rights in civil and criminal matters dependent upon the successful completion of some type of content review, Article 4 appears also to be inconsistent with Berne Article 5(2), and thus, inconsistent with Article 9.1 of the TRIPS Agreement for that reason as well.

ANNEX A–3

CLOSING ORAL STATEMENT OF THE UNITED STATES AT THE FIRST SUBSTANTIVE MEETING

1. On behalf of the United States, we would like to begin by thanking the Panel, the Secretariat staff, and the delegation of China for their time and attention during our session this week.

I. INTRODUCTION

2. At the end of this first meeting of the Panel, taking into account the submissions and statements that have been provided by both the Parties and the Third Parties, we would like to offer some observations.

3. In our view, the meeting this week has provided useful discussions to assist the Panel's assessment of whether the three sets of China's measures that we have challenged are consistent with the TRIPS Agreement.

4. First, we commend to the Panel the views expressed by Third Parties that there is no special burden of proof required for this dispute. Indeed, like all disputes, the burden of proof provided by the *Understanding on Rules and Procedures Governing the Settlement of Disputes* ("DSU") governs here. We are pleased to note that China now appears to agree that no higher burden of proof applies for any of the claims in this dispute.[1]

5. We believe that the meeting this week confirms that the United States has fully demonstrated that the Chinese measures at issue are inconsistent with the relevant provisions of the TRIPS Agreement.

II. CHINA'S CRIMINAL IPR THRESHOLDS FOR TRADEMARK COUNTERFEITING AND COPYRIGHT PIRACY

6. The obligations in Article 61 are straightforward and unambiguous. Members must criminalize all wilful commercial-scale trademark counterfeiting and copyright piracy. WTO Members must implement this minimum standard in their domestic IPR regimes.

7. We would commend in particular to the Panel the views expressed by a number of the Third Party WTO Members that the minimum enforcement standards established by Article 61 for all WTO Members are not modified by Article 1.1 or Article 41.5 of the TRIPS Agreement. To the contrary, the United States recalls the language of the first sentence of Article 1.1; that China must "give effect" to the obligations of Article 61.

8. Turning to Article 61, it is unfortunate that China's oral statement repeats the misreading of the position of the United States regarding the proper interpretation of "on a commercial scale" in Article 61. As we set out in paragraph 108-110 of our first submission and paragraph 17 of the US oral statement, commercial scale does <u>not</u> mean commercial "purpose" or commercial "intent".

9. Please allow me to clarify the US position again. The US position is based on the well-established principles that govern treaty interpretation in WTO dispute settlement pursuant to Article 3.2 of the DSU. Those who are engaging in commercial activities (and thus do have a profit

[1] China's first oral statement, para. 39.

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.

10. Indeed, while the TRIPS Agreement obligation to provide for criminal procedures and penalties for acts of "commercial scale" trademark counterfeiting and copyright piracy remains unchanged, the factual situations that represent "commercial scale" may indeed change over time, as technologies and market conditions evolve.

11. On the other hand, the TRIPS Agreement deals with *non-criminal* remedies in other sections of Part III of the TRIPS Agreement. Therefore, a Member's *non-criminal* remedies are neither the subject of Section 5 of the TRIPS Agreement obligations concerning "criminal procedures," nor are they relevant in dealing with a Members' compliance with those obligations.

12. When we apply the Article 61 standard, it is evident that China's measures do not provide for criminal penalties and procedures for all wilful commercial-scale counterfeiting and piracy.

13. The *first* fundamental problem is that China's thresholds are set at such a level, and calculated 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".

14. The *second* fundamental problem is that the structure of the thresholds requires Chinese authorities to rely exclusively on a limited set of one-size-fits-all tests for counterfeiting and piracy that can be subject to criminal prosecution or conviction under Chinese law. A range of factors are capable of being probative of "commercial scale," but China's rigid criminal thresholds preclude their use. In this connection, the United States would note the many potentially relevant factors raised by several third party WTO Members.

15. Mr. Chairman, and Members of the Panel, the United States appreciates the sincere efforts of dedicated law enforcement officials throughout China who are trying to fight counterfeiting and piracy. Unfortunately, in this instance, the law is an obstacle.

16. It is regrettable that, under China's criminal IPR thresholds, its prosecutors and judges cannot, as a matter of law, reach the acts of "commercial scale" piracy and counterfeiting that fall in the safe harbor from criminal procedures and penalties that are below the thresholds' flat volume or value metric. This state of the law is also inconsistent with China's obligations under the TRIPS Agreement.

III. CHINA'S BORDER MEASURES FOR DISPOSAL OF CONFISCATED GOODS

17. With regard to our second claim, as explained in our first submission and our oral statement, China's Customs regulations create a mandatory hierarchy of actions that binds China's Customs authorities. The rigidity of this system constrains Chinese Customs authorities, so that in many circumstances, they do not have the authority, much less the discretion, to act in accordance with the principles in the first sentence of Article 46 concerning proper disposal or destruction of goods.

18. We note in this regard that China has not contested the relevance or compulsory language of the Customs IPR Implementing Measures.[2] Rather, China now asserts that China Customs has sufficient discretion to act in accordance with Article 46 principles. It does so by characterizing Customs' fact finding obligations, which determine which step in the hierarchy is applicable, as "discretion". However, this assertion ignores the plain text of China's measures.

[2] Exhibit US-6

19. When China Customs reaches a given step in its hierarchy, if a particular fact situation is presented, the Customs IPR Implementing Measures require Customs to take certain prescribed actions that do not satisfy the principles of Article 46. Yet Article 59 obligates Members to provide authority consistent with these principles.

20. The rigid Chinese system likewise prevents Chinese authorities from meeting the principle in the last sentence of Article 46, since once auction becomes the required step in China's hierarchy, China Customs is required, where feasible, to auction goods after the infringing mark has been removed.

IV. ARTICLE 4 OF CHINA'S COPYRIGHT LAW AND THE DENIAL OF COPYRIGHT PROTECTION

21. The text of Article 4.1 is straightforward. Article 4, first sentence, provides that "[w]orks the publication or distribution of which is prohibited by law shall not be protected by this Law."

22. Nothing China has presented overcomes the plain meaning of that provision – that Article 4.1 denies copyright protection to content that has not been approved. As we note in our oral statement, China's reliance on the NCAC administrative actions does not demonstrate that Article 4.1 operates contrary to its text. Accordingly, the evidence continues to indicate that China does not satisfy its TRIPS obligations (including those incorporated from the Berne Convention) to provide the full range of rights and to provide those rights upon the creation of the work without the imposition of formalities. Moreover, this means that China does not afford civil and criminal remedies for infringements heard by the courts.

23. In light of the foregoing, the United States believes that Article 4.1 of China's Copyright Law is inconsistent with China's obligations under the TRIPS Agreement.

V. CONCLUSION

24. Mr. Chairman, and Members of the Panel, we would again like to thank you, and the Secretariat staff assisting you, for your efforts on this dispute, and for your time and attention this week. We look forward to receiving the written version of your questions, and to filing our responses and our rebuttal submission. We also look forward to seeing you again in June.

ANNEX A–4

EXECUTIVE SUMMARY OF THE REBUTTAL SUBMISSION OF THE UNITED STATES

I. INTRODUCTION

1. This submission will show how China's arguments in its first written submission, oral statement at the First Panel Meeting, and Responses to the Panel's Questions fail to rebut the demonstration in the US first submission that China's measures in certain areas are inconsistent with its obligations under the TRIPS Agreement.

II. CHINA'S THRESHOLDS FOR CRIMINAL PROCEDURES AND PENALTIES FOR TRADEMARK COUNTERFEITING AND COPYRIGHT PIRACY ARE INCONSISTENT WITH CHINA'S OBLIGATIONS UNDER ARTICLES 61 AND ARTICLE 41.1 OF THE TRIPS AGREEMENT

2. The United States has met the burden of proof by successfully demonstrating that China's measures are inconsistent with China's obligations under the first and second sentences of Article 61 and Article 41.1 of the TRIPS Agreement. The United States, and a number of third parties, have provided numerous concrete illustrations of how China's thresholds permit wilful trademark counterfeiting and copyright piracy on a commercial scale to exist. China has not disputed that acts of "wilful trademark counterfeiting and copyright piracy" occur in many cases without triggering these criminal thresholds, and as the US has demonstrated, China does not provide criminal penalties and procedures for many of these acts that are "on a commercial scale".

A. ARTICLE 61, FIRST SENTENCE, OF THE TRIPS AGREEMENT

3. The obligation in the first sentence of Article 61 is comprised of a number of elements. China "shall provide for" criminal procedures and penalties "to be applied" "at least" in cases of "wilful trademark counterfeiting and copyright piracy" "on a commercial scale". China observes that the core aspect of this claim is the meaning of the term "on a commercial scale". The United States agrees and has provided an interpretation for "commercial scale" that accords with the customary rules of interpretation reflected in the *Vienna Convention*.

4. The US explanation of the term "commercial scale" is set out in detail in the US first submission. In particular, two features emerge from the ordinary meaning of the term. First, by using 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 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. 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.

5. China claims that the US position is that commercial scale only means commercial purpose. That is demonstrably not the US view. That said, 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. An infringer with a different intent may or may not be acting on a "scale" that is "commercial".

6. China also alleges that the United States wrongly interprets the ordinary meaning of the term "commercial scale" by looking at the meaning of the individual words "commercial" and "scale". However, that is a completely acceptable method for interpreting a term and is similar to that followed by past panels and the Appellate Body.

7. China invites the Panel to ignore the ordinary meaning of "commercial scale," as explicated by the United States, and instead substitute a concept that China has labeled "significant magnitude of activity" which is not consistent with the *Vienna Convention* customary rules. *First*, China's proposed interpretation is at odds with the ordinary meaning of "commercial scale". Its reads "commercial" out of Article 61, by essentially replacing "commercial" with "significant" and further, the word "scale" means a "*certain* extent or magnitude," not a "*significant* extent or magnitude". While China claims that its proposed meaning derives from "common usage" and from "statements of the TRIPS negotiating parties," China provides no evidence that the Uruguay Round negotiations distilled any sort of prevailing understanding of "commercial scale" from the unrelated sources cited by China. These isolated references are clearly insufficient to constitute any sort of "common usage". In these other sources, where "commercial scale" is used in the context of "production" or "manufacturing" there is no suggestion that "commercial scale" would not apply to other acts – for example, retail sale. Further, Article 61 does not contain references to "manufacturing" or "production" – it refers instead simply to "counterfeiting" and "piracy".

8. China's reliance on a 1988 WIPO Committee of Experts on Counterfeiting and Piracy document and accompanying discussions does not provide support for its proposed interpretation of Article 61 on numerous grounds. First, it is unclear what status this document has under the *Vienna Convention* – as China has not argued that it should be taken into account pursuant to Article 31 or Article 32 of the *Vienna Convention*. In fact, this WIPO document does not constitute an appropriate "supplementary means of interpretation" within the scope of Article 32 of the *Vienna Convention* for many reasons. The WIPO Committee proceedings were independent of the TRIPS negotiations, there was no consensus on the document, and the WIPO Committee of Experts (much less the country members of WIPO) did not adopt the document China has cited.

9. Even assuming that the document could be considered as a "supplementary means of interpretation," the normal application of the *Vienna Convention* principles to the term "commercial scale" does not leave its meaning "ambiguous or obscure" or leads to "manifestly absurd or unreasonable results". Therefore, it could only be properly used to confirm an interpretation reached by means of the rules in Article 31 of the *Vienna Convention*.

10. In this context, the WIPO document serves to confirm the US interpretation, as it underscores the US view that the scope of commercial scale cannot be reduced merely to a value or volume metric. Instead, a variety of open-ended factors would need to be taken into account: including the "circumstances" surrounding the manufacture, as well as "the will to make a profit" and the way that the goods "are intended to be used," in addition to the "quantity of goods". China's rigid and high numerical thresholds is far from these open-ended set of factors. The United States, supported by a number of third parties, believes that a range of quantitative and qualitative factors should be taken into account to ensure that all "commercial scale" activities are subject to this discipline.

11. Furthermore, the WIPO Committee's "definition" of "commercial scale" did not form the basis of the negotiations on TRIPS Article 61. There was no "definition" adopted by the WIPO Committee; and even though China is correct that the WIPO Committee's Model Provisions were brought to the attention of the TRIPS negotiation participants, the particular concept of "on a commercial scale" in Article 61 emerged in the TRIPS negotiations. The focus of the initial discussions cited by China differs sharply from the context in which the term "commercial scale" ultimately was used by the TRIPS negotiators, i.e., to define which acts of trademark counterfeiting and copyright piracy must be subject to criminal procedures and penalties.

12. China also fails in its attempt to use the WIPO document as support for its efforts to limit the scope of Article 61 to only "larger-scale" activities such as the manufacture of infringing goods. Nothing in the ordinary meaning of "commercial" implies that it is limited to the industrial context. Had the TRIPS negotiators intended the obligations to apply only to industrial-level production, they presumably would have used the term "industrial scale" and not commercial scale. In any event, the reference to "manufacturing on a commercial scale" was not included in the final text of Article 61. The omission of "manufacture"– where it was present in the WIPO document – tends to confirm that other commercial activity, such as retailing and wholesaling, is included in the meaning of "on a commercial scale" in Article 61. Furthermore, the document also provides that retail sale can also be an act of counterfeiting or piracy, referring back to the principles in the manufacturing section to incorporate the concept of "commercial scale" into the retail context.

13. The WIPO Committee discussions also do not provide support for China's proposed interpretation of "commercial scale" as "broad and flexible standard". China's arguments is misplaced to the extent that China is claiming that this discussion demonstrates a consensus for variable meaning to this term as used in Article 61, or provides a basis for China not to comply with the obligation in that Article. The meaning of this term in Article 61 is clear and its application is uniform across all WTO Members.

14. *Second*, China's purported context for interpreting Article 61 is also unavailing. China's argument that Articles 1.1 and 41.5 allow China to define for itself the obligations of Article 61 is contrary to plain text of these provisions. First, as made clear by the text of the final sentence, Article 1.1 deals with the *method* by which a Member implements TRIPS Agreement obligations, not *whether or to what extent* a Member should implement them in the first place. While during the TRIPS negotiations, WTO Members expressed diverse views on various draft provisions of the TRIPS Agreement, the negotiators coalesced around the final text of the TRIPS Agreement. The first sentence of Article 1.1 states that Members shall "give effect to these provisions" and therefore because Article 1.1 does not alter the obligations in Article 61, China must implement Article 61 in a manner that reflects its terms.

15. Likewise, Article 41.5 deals with the implementation of a Member's Part III enforcement obligations, not the substance of the obligations themselves. The thrust of the second sentence of Article 41.5 concerns the distribution of enforcement resources between the enforcement of the law in general and the enforcement of intellectual property rights. Article 41.5 does not provide an exception or affect the scope of the substantive obligations of Article 61. The United States is not arguing that China should alter how China enforces its laws in general; rather, the United States argues that China's criminal thresholds fall short of the minimum standards in Article 61.

16. Whether China chooses to actually prosecute relatively smaller cases of wilful trademark counterfeiting or copyright piracy "on a commercial scale" is not at issue in this dispute. Consequently, the level of resources China chooses to dedicate to such prosecution is, from the perspective of the legal claims in this dispute, beside the point.

17. China's other contextual arguments for "commercial scale" are similarly unavailing. China's arguments that the TRIPS Agreement and Berne Convention "do not set forth a definition of infringement" are simply beside the point because the United States does not claim in this dispute that, leaving aside the thresholds, there are substantive types or categories of acts constituting "wilful trademark counterfeiting or copyright piracy" (as those terms are used in Article 61) for which China has failed to make criminal procedures and penalties available under Articles 213, 214, 215, 217, and 218. Rather, it is that China does not make them available for all acts of "wilful trademark counterfeiting or copyright piracy" that are "on a commercial scale".

18. Furthermore, China's accusation that the US is "impos[ing] a fixed, concrete international standard" of "commercial scale" is also misplaced. Establishing an obligation concerning the minimum enforcement provisions of WTO Members must have in place is precisely what the TRIPS Agreement does. Additionally, China's assertions that Article 61 lacks "specificity" gain China no ground. No amount of comparison to other provisions in the TRIPS Agreement and other WTO Agreements assist China in escaping the requirements of Article 61.

19. *Third*, China's claims regarding the object and purpose of the TRIPS Agreement are unavailing. A fair reading of the Preamble does not support China's position. Moreover, giving meaning to Part III of the TRIPS Agreement, including Article 61, is not "harmonizing" legal systems. China is free to provide an enforcement regime consistent with, for example, systems in effect in countries of the "civil law" traditions.

20. *Fourth*, China's resort to the subsequent actions of Members provisions do not provide any evidence of "subsequent practice in the application of the treaty" under Article 31(3) of the *Vienna Convention* establishing any agreement by WTO Members regarding the interpretation of Article 61. The provisions of US free trade agreements are not relevant to this Panel's interpretation of the covered agreement, i.e., the TRIPS Agreement. Similarly, China fails in its attempts to claim that practices by certain third parties to the dispute are some type of "subsequent practice" within the meaning of the *Vienna Convention.* These claims are refuted by those third parties.

21. *Fifth*, China also hints at the argument that "commercial scale" might have a special meaning provided for under Article 31(4) of the *Vienna Convention*. However, there is no evidence, either in the Chinese submissions or elsewhere, of a "special meaning" for "commercial scale".

22. *Sixth*, China's reliance on the negotiating history of the TRIPS Agreement is also unavailing. For the reasons stated above, China's claims that the negotiating record of the TRIPS Agreement provides confirmation for its view of the "commercial scale" standard ("counterfeiting and piracy of a significant scale") is incorrect and supports the US position.

23. Finally, China's arguments that deference to its criminal law should also be disregarded. China's arguments amount to an invitation to the Panel to abandon the treaty interpretation principles that WTO Members have agreed shall govern this Panel's work. These arguments regarding the special nature of criminal law have no bearing on the core question: whether China has fulfilled its obligations under Article 61. When China became a WTO Member, it also agreed to ensure that its criminal laws against piracy and counterfeiting meet the standards in the TRIPS Agreement. Furthermore, while China urges the Panel to take into account "*in dubio mitius*," in this case, there is no need to rely on this concept, as the meaning of "commercial scale" is reached through the general rules of interpretation reflected in Article 31 of the *Vienna Convention*.

B. CONTRARY TO ARTICLE 61, CHINA'S MEASURES FAIL TO PROVIDE CRIMINAL PROCEDURES AND PENALTIES FOR WILFUL TRADEMARK COUNTERFEITING AND COPYRIGHT PIRACY ON A COMMERCIAL SCALE

24. China's criminal thresholds create a safe harbor, preventing criminal procedures and penalties from being available for all instances of commercial scale counterfeiting and piracy. Instead of denying this core safe harbor problem, China attempts to disagree with the *degree* but not the *reality* of the inconsistency. The first fundamental problem with China's thresholds is that they do not permit prosecution or conviction of infringing activity involving values or volumes below the thresholds but that 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 themselves. Indeed, China does not rebut the core issue raised

by the US with respect to the Article 61 claim: that if a case fails to meet at least one of the thresholds, that fact will preclude criminal prosecution and conviction.

25. China takes a different tack: it attempts to whittle away at the size of the safe harbor. First, China seizes on certain US explanations regarding the nature of the thresholds and attempts to show that "commercial scale" activity can be captured in some circumstances. However, the application of *any or all* of the alternative thresholds still leaves much commercial-scale piracy and counterfeiting immune from criminal prosecution or conviction. Furthermore, China concedes that in calculating certain thresholds the price of the legitimate good is used by courts only as a last option. This valuation methodology exacerbates the safe harbor problem by creating a larger safe harbor than would exist if China used a methodology based on the prices of legitimate goods.

26. Second, China takes issue with the US characterization of the operation of the thresholds and mistakenly appears to argue that the provisions concerning the calculation of the thresholds under the measures at issue should not be subject to scrutiny under Article 61. What China calls "evidentiary" standards are, in fact, relevant to whether China meets the Article 61 obligation: they cause "criminal procedures" and "criminal penalties" not to be "applied" in some cases of wilful trademark counterfeiting and copyright piracy. Indeed, China's thresholds provide a substantial safe harbor *capable* of sheltering commercial operations, thus inviting counterfeiters and pirates to structure their commercial operations in a way take advantage from the thresholds.

27. China's arguments about the operation of the thresholds, including that the thresholds can be calculated over a prolonged period of time and can count goods in other warehouses, likewise do not overcome the US case. First, Article 12 of the December 2004 JI makes clear that the values of "illegal business volume," "illegal gains" and "amount of sales" can only be cumulated if engaging in such acts has not resulted in the imposition of an administrative penalty or criminal punishment. China admits that the imposition of administrative penalties is often its preferred remedy. Second, the "illegal business operation" threshold is structured so as to exclude many cases of "commercial scale" piracy and counterfeiting – regardless of whether goods at other warehouses or in transportation can be counted.

28. The second set of problems with respect to China's thresholds stems from the fact that Chinese authorities must rely on a very limited set of one-size-fits-all numerical tests. A range of considerations should be probative of "commercial scale," but China's rigid criminal thresholds preclude their use; the thresholds fail to reach some classes of commercial-scale piracy and counterfeiting not only because of their magnitude, but also because of what they do – and do not – measure. The thresholds do not measure reliable indicia of a commercial-scale piracy or counterfeiting operation, such as "worn molds" for pressing pirated products or counterfeit marks or other materials and implements of such an operation.

29. China argues around the issue of whether its thresholds can reach beyond the metrics of "illegal business volume," "illegal gains," "amount of sales," or "copies" to capture cases of commercial-scale piracy and counterfeiting that are probative of "commercial scale" but do not neatly fit under these categories. First, while China claims that criminal measures are available for the crimes of attempt and preparation, this does not address the concerns of the United States. Worn molds and similar reliable evidence would be evidence of a completed crime; that is, the worn mold supports the conclusion that commercial-scale infringement *already has* occurred. Attempt and preparation are "inchoate" or uncompleted crimes and despite the probative value of this evidence for proving a particular completed crime, evidence such as worn molds, which are implements used to commit the crime, unfinished products and non-infringing packaging is not cognizable under the metrics of China's thresholds.

30. But even if certain near-finished products can be counted against the thresholds in some cases, China's arguments still miss the point. Its thresholds will still exclude commercial-scale piracy and counterfeiting. For example, 499 unfinished copies of a video game not yet bearing an infringing trademark still qualify as evidence of a "commercial scale" operation, just as much as 499 finished video games bearing such a trademark. Further, contrary to China's assertion, the cases included in China's first written submission that involved conviction under the crime of "attempt" only involved convictions based on "unsold" but finished products and did not involve a situation where unfinished products or non-infringing packaging were used by the court for that conviction. Additionally, the cases that China claims counted "unfinished" goods do not assist China: the reasoning in the first case, involving washing powder, is quite confused, and the case appears to be an outlier and the second case involving game cartridges, is inapposite, and the case did not involve the Article 213 thresholds established by the December 2004 JI.

31. China also does not rebut the conclusions reached in the CCA Report on actual enforcement efforts. Rather, China argues that the "statistical trends" from the data are not meaningful and that "the US has failed to present the correct conclusions from the data." Contrary to China's assertions, the United States does not advance any predictive theories from the CCA Report. The CCA Report is a compelling empirical study that pulls together raw data from actual conduct that occurred in the past. The conclusions are plain to see: the vast majority of traditional retail outlets selling recorded music and/or home video products – a classic example of commercial scale activity – faced no possibility of criminal prosecution or conviction under China's criminal thresholds.

32. China's attempts to cast doubt on the conclusions from the empirical study are unpersuasive. Rather than focus on the below-the-thresholds data at the heart of this dispute, China instead focuses on trying to construct a US "hypothesis" based on activity happening above the thresholds – activity which is by definition criminalized and not the subject of this dispute. Moreover, China's argument that there is no "dramatic shift" in infringing activity between the two time periods simply misses the point. Despite the lower 500 copy threshold that was in effect during the second time period, piracy and counterfeiting continued to flourish in the safe harbor below the thresholds.

33. China's criticism of other US exhibits, such as articles in newspapers and magazines that illustrate the safe harbor problem is puzzling, as when the United States attempted to obtain information from China pursuant to TRIPS Article 63.3, China declined to provide information but stated that relevant information was publicly available through official websites, newspapers, magazines, and other proper channels.

34. Based on its flawed interpretation of Article 61, China attempts to justify its TRIPS-inconsistent regime and asserts that it has "imposed criminal penalties for wilful infringement that involves a *significant magnitude of activity*" (its erroneous interpretation, emphasis added) that is (a) appropriate within the legal structures of China, and (b) appropriate within the commercial context of China. These arguments are without merit.

35. *First*, whether China's criminal IPR thresholds are appropriate within the context of China's domestic law is irrelevant. What China chooses to do with its domestic *non-IPR* criminal thresholds has no bearing on this Panel's assessment of whether China meets its international obligations under the first sentence of *Article 61 of the TRIPS Agreement.* China appears to confuse its ability to determine what constitutes a "commercial crime" in its domestic law with its obligation to comply with the first sentence of TRIPS Article 61. In this dispute, the United States is seeking to ensure that a criminal law regime is in place where Article 61 requires China to have one (and where China, at the moment, does not).

36. *Second*, China's arguments that its thresholds are reasonable "in terms of the scale of commerce in China" fail to withstand scrutiny. China neither explains nor justifies how the

boundaries of criminal liability that China has chosen in fact capture all counterfeiting and piracy that is "on a commercial scale" under Article 61. China's thresholds are not appropriate to the scale of commerce in China, as they miss many types of "commercial scale" activity and offer one size for all cases; they do not accommodate the realities of the marketplace. Further China's statistics regarding the purported reasonableness of its "illegal business operation" threshold concedes that there is some "commerce" that falls below the thresholds and they do not shed any real light on the scope and scale of commerce in China.

37. The inappropriateness of China's thresholds is borne out by other illustrations including Canada's citation to China's estimated per capita gross domestic product. It is clear that "commercial scale" counterfeiting and piracy is not limited to large-scale or industrial-scale enterprises – on the contrary, the growth of the Internet and digital technological advancements permit commercial-scale piracy and counterfeiting to occur with a computer in a small space. While China also argues that it does not have an obligation to consider the "commercial impact of the intellectual property infringement when setting its thresholds," advances in digital technology and the Internet, among other market conditions, enable piracy and counterfeiting to take place in situations that escape the reach of China's thresholds, even though they can have a large (and commercial) impact and are on a large (and commercial) scale.

38. China's other arguments regarding the implementation of Article 61 are unavailing. First, China's arguments regarding the ability of private parties to bring prosecution of certain criminal acts are of little relevance to the Panel's consideration of whether China's criminal thresholds are consistent with China's obligations under Article 61. China's assertion that lowering its thresholds "could unleash a large volume of private enforcement actions" is unsubstantiated. Second, China's administrative enforcement regime has no bearing on whether China meets the obligations of the first sentence of Article 61. Part III of the TRIPS Agreement deals with a number of enforcement procedures. Section 2 pertains to "Civil and Administrative" procedures and Section 5, where Article 61 can be found, pertains to "Criminal" procedures. It is notable that Article 61 is the only provision that focuses on criminal penalties and procedures. Conversely, that also means that only criminal penalties and procedures can fulfill the obligations in Article 61.

C. CHINA'S CRIMINAL IPR THRESHOLDS ARE ALSO INCONSISTENT WITH ARTICLE 61, SECOND SENTENCE AND ARTICLE 41.1 OF THE TRIPS AGREEMENT

39. The United States has also demonstrated why China's criminal IPR thresholds are also inconsistent with the second sentence of Article 61 and Article 41.1. China acknowledges that if the Panel finds that China's criminal IPR thresholds are inconsistent with the first sentence of Article 61, it must also find an inconsistency with the second sentence of Article 61 and with Article 41.1.

III. 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

A. ARTICLE 59 OF THE TRIPS AGREEMENT

40. 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, the relevant authority needed under Article 59 is detailed in two sentences in Article 46. Read together, Article 46 and Article 59 require, first, that a Member's competent authorities for border enforcement "shall have the authority to order that goods that they have found to be infringing be disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, or, unless this would be contrary to existing constitutional requirements, destroyed." Second, "[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."

41. China advances a number of arguments that would minimize China's obligations under Articles 46 and 59. These arguments are without merit. *First*, China's arguments that Article 59 does not require that Members provide a broad grant of authority to agencies and that China's regime simply "stipulates conditions and sequencing for its exercise by domestic agencies" are unavailing. Article 59 plainly requires full authority to be granted to dispose of or destroy confiscated infringing goods in accordance with the principles of Article 46. The broad scope of Article 59 authority regarding infringing goods confiscated by border authorities is clear from the absence of any restrictions on this authority in Article 46. China Customs should have the *power* to choose among any legitimate options for dealing with these goods – in accordance with the principles of Article 46 – from the outset when the goods are found to be infringing, and thereafter until the goods are finally dealt with.

42. China's attempts to use TRIPS Article 1.1 to argue for the acceptability of its rigidly constrained disposal regime are unavailing as Article 1.1 does not exempt China from complying with these provisions of the TRIPS Agreement. China's references to other Members' copyright and trademark laws are similarly misplaced as this dispute concerns China's measures, not other Members' laws, and further, substantively, these laws do not resemble in any respect the problematic disposal hierarchy used by China.

43. *Second*, China also points to China Customs statistics showing the disposition of confiscated goods found to be infringing. Those figures, however, provide no response to the US claim; the United States is not arguing that the TRIPS Agreement obligations *require* China to destroy or dispose of all such goods in accordance with the relevant principles of Article 46.

44. *Third*, China's argument that the Article 46 principle to "avoid any harm caused to the right holder" only obliges China to "pay due regard to potential harms to the right-holder and to refrain from disposition methods that consistently or significantly harm the right-holder's interests" is contrary to the meaning of the provision. The obligation is not to "pay due regard" to the interests of a right holder and to tolerate intermittent or "non-significant" harm. The standard requires avoiding any harm to the right holder. Indeed, the definition China itself cites for the word "avoid" is "to keep away or refrain from; *prevent from doing or happening*."

45. *Fourth*, China's argument that the final sentence of Article 46 is not incorporated into Article 59 is at odds with the text of Article 59. There is no limiting language in Article 59 that would selectively incorporate only the obligations in the first sentence of Article 46. If the negotiators of the TRIPS Agreement had intended to carve out specific obligations in Article 46 from being transposed to Article 59, they would have done so.

46. Additionally, China's claim the principle in the last sentence of Article 46 only means that the "removal of the trademark is not sufficient" to permit this release is contrary to the language of Article 46, last sentence. China misreads the relationship between the phrases "removal of the trademark unlawfully affixed shall not be sufficient" and "exceptional cases". The phrase "other than in exceptional cases" means that only in exceptional cases may the competent authorities "permit release of the goods into the channels of commerce." Moreover, while China further claims that it complies with the purpose behind this principle, since China Customs removes all infringing features from the goods and takes other steps, the TRIPS Agreement does not provide for Members to only comply with what they identify to be a "purpose" behind a provision.

B. CONTRARY TO ARTICLE 59, CHINA'S CUSTOMS AUTHORITIES DO NOT HAVE THE AUTHORITY TO ORDER THE DESTRUCTION OR DISPOSAL OF INFRINGING GOODS IN ACCORDANCE WITH THE PRINCIPLES SET OUT IN ARTICLE 46

47. Article 30 of the Customs IPR Implementing Measures, which implements Article 27 of the State Council Customs IPR Regulation and binds Customs officials across China, sets out a compulsory sequence of steps that Chinese Customs must follow in deciding how to treat goods seized at the border that it has determined infringe intellectual property rights. While China claims that its Customs authorities have the "discretion" not to follow the prescribed steps in the hierarchy, the essential point in the US claim is that in circumstances where Customs makes a certain determination under its measures, it is compelled to follow the option set forth in the hierarchy. And in those circumstances, China Customs lacks the authority that the TRIPS Agreement requires to opt for destruction or disposal in accordance with Article 46 principles.

48. China also asserts that its rigid disposal regime somehow does not strictly constrain Customs officials' scope of action, because other generally applicable Chinese laws regarding such matters as safety also govern Customs authorities' decision making. However, in response to panel questions, China specifically concedes that Chinese Customs officials must make particular findings under its disposal regime, and once they have made them, they have no discretion as to their acts.

49. Neither alternative in the initial step of China's mandatory hierarchy – donation or sale to the right holder – meets the principles of Article 46. China Customs' donation of infringing goods to "public welfare organizations" under the measures at issue does not provide Customs with the authority to dispose of the confiscated goods "outside of the channels of commerce in such a manner as to avoid any harm caused to the right holder." First, while China claims that its Customs authorities only donate goods suitable for public welfare purposes, these standards would not prevent donation of usable but likely lower-quality counterfeit or pirated products that would be used by potential consumers of the genuine article and also could harm the right holder's reputation. Accordingly, the donation option in China's measures is inconsistent with the Article 46 principle concerning harm to the right holder.

50. Second, while China states its legal obligation to supervise the use of the donated goods ensures that they will not return to commerce, Article 17 of the Law on Donations specifically authorizes public welfare organizations to sell donated goods on the market if certain circumstances are present. While the Red Cross Memorandum does contain a provision obligating the Red Cross to "take effective measures ... entering into the channels of commerce," at the same time, the Law on Donations makes clear that donee organizations are not required to enter into these kinds of agreements, and when no agreement is in place, Chinese authorities have offered no legal argument that they can override the provisions of Article 17. Accordingly, for that reason, China is not meeting its obligations under Articles 59 and 46.

51. While China points to Article 18 of the Law on Donations in an attempt to dismiss the relevance of Article 17, selling the goods under Article 17 and ensuring the resulting funds continue to be put to the "use" prescribed in the donation agreement appears, on its face, to be an action consistent with the mandates of Article 18. Likewise, a general contractual commitment such as in the Red Cross Memorandum would not override rights provided under a national law.

52. Furthermore, China's claim that Article 30 of the Customs IPR Implementing Measures renders the resale option under Article 17 of the Law on Donations "null" is unavailing. Article 30 governs Customs' donations to a public welfare organization and Article 17 governs the donees' disposal of such goods after the donation, when the circumstances presented in Article 17 arise.

53. The second option at the initial step in China's disposal hierarchy, which allows Customs to sell the infringing goods to the right holder, does not permit disposal "in such a manner as to avoid any harm caused to the right holder," as Article 46 requires. In situations where donation is not appropriate, China's measures require Chinese authorities to offer the infringing goods for sale to the right holder. If right holders pay for infringing goods to ensure that they are destroyed or removed from the channels of commerce (such as, for example, by public auction), financial harm will result in the form of the payment. While China argues that the required efforts to sell infringing product to the right holder advance right holder's interests, this argument is without merit. It requires the untenable assumption that right holders are eager to buy extra product they have not ordered and whose production is outside the terms of their contract.

54. Where the transfer to a public welfare organization is unavailable, and the right holder does not elect to purchase the infringing goods, the Customs authorities must turn to the next compulsory step involving the public auction of the confiscated goods. China's public auction process for these goods likewise does not comport with the Article 46 principles incorporated into Article 59.

55. Because China's mandatory procedures strip Customs of the authority to prevent auction when this option becomes operative in the Customs hierarchy, the procedures are inconsistent with the first sentence of Article 46. A mandated auction under China's measures also precludes Customs from having the authority to destroy these products. While China argues that Article 59 does not obligate China to limit its customs agencies to disposal outside the channels of commerce, the US claim concerns the scope of authority under Article 59. Because China's mandatory public auction procedure does not permit China Customs to act in accordance with the Article 46 principles, it is inconsistent with China's obligations under the TRIPS Agreement.

56. China's arguments regarding how its public auction procedure avoids harm to the right holder should be disregarded. A public auction can cause great harm to the right holder, since the infringer whose goods have been confiscated can simply purchase the seized goods at the auction, re-affix the infringing features, and proceed to distribute the goods. While China focuses on the impact on the infringer, the Article 46 principle at issue concerns avoiding any harm to the right holder, not assessing the status of the infringer. Moreover, a right holder's ability to "comment" on China's measures is not a right to *prevent* the goods from being auctioned, and is not a means to ensure that the authorities act in a manner that avoids any harm to a right holder. Additionally, even if some "safety" concerns will prevent a public auction, in the many cases where the infringing features can be eliminated and the goods do not pose safety concerns, the measures mandate public auction – and thus, entry into the channels of commerce.

57. Further, with respect to counterfeit trademark goods, China's public auction step is also inconsistent with the principle in the last sentence of Article 46. Simply put, China does not confine its release of these goods into the channels of commerce to exceptional cases. China's focus on actions such as reserve prices and comments from the right holder are misplaced: the problem is that China's measures compel public auction if the infringing features of the products can be eliminated, assuming no safety defects.

58. In the final step of the mandatory hierarchy, if no earlier options prove feasible, then and only then, China Customs gains the power to destroy the infringing goods. In other words, this step will not be reached if any of the options higher in priority are available. In these situations, 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 is both outside of the channels of commerce and handled in a manner that avoids any harm to the right holder).

59. China does not deny that China Customs only possesses the authority to destroy the goods when the other options in its disposal hierarchy (i.e., donation, sale to the right holder, public auction)

are not available. Indeed, the cases China cites where China Customs destroyed infringing goods do not contradict the mandatory nature of the Customs disposal hierarchy. The text of China's Customs IPR Implementing Measures state that when certain facts are present, Customs officials have no discretion, i.e., they must dispose of the goods only in the manner stipulated. In each of those circumstances, Chinese customs authorities lack the authority, as a matter of Chinese law, to order the destruction of infringing goods.

IV. CHINA'S DENIAL OF COPYRIGHT PROTECTION AND ENFORCEMENT TO CERTAIN WORKS IS INCONSISTENT WITH THE TRIPS AGREEMENT

60. In its submissions, China admits that it denies copyright protection to certain works whose contents Chinese authorities determine are prohibited by law. Moreover, the National Copyright Administration of China (NCAC) has confirmed that Article 4 denies copyright protection to "works whose contents are illegal." Therefore, contrary to China's obligations under TRIPS Article 9.1 (and the provisions of the Berne Convention referenced in Article 9.1), Article 4.1 on its face denies copyright protection to works that are required to be afforded protection.

61. *First*, 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 by the Berne Convention. Pursuant to Berne Convention Article 2(1) and Article 2(6), China's Article 4.1 blanket exclusion for certain works is inconsistent with the Berne Convention as incorporated into the TRIPS Agreement.

62. While China asserts that under Article 2 of the Copyright Law, Chinese law "protects copyright from the time a work is created" as "copyright vests upon creation," China concedes that Article 4.1 denies protection to certain works. Thus, China already admits that *some* subject matter does not receive protection at all since it is denied such protection as a matter of law. While courts and/or competent authorities may *confirm* what is illegal after the fact, such confirmation is not a prerequisite for concluding as a legal matter that content is not protected by copyright. Additionally, Article 2 of the Copyright Law cannot, by the terms of Article 4, apply to certain works. The Berne Convention (or the TRIPS Agreement) does not permit copyright to be extended initially, but then rescinded for the reasons stated in Article 4.

63. *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), which specifies certain guaranteed minimum copyright protection for works, including a minimum set of exclusive rights.

64. China's attempts to distinguish "copyright" and "copyright protection" are unavailing. The relevant provisions of the Berne Convention provide that China has obligations with respect to "protection" of copyright, thus, the existence of what China calls "Article 2 copyright" – whatever that could mean in the absence of protection under China's Copyright Law – is not relevant to the analysis of whether Berne Convention-mandated "protection" is afforded.

65. China's arguments regarding the limited "marketplace effect" of Article 4.1 should be disregarded, as the denial of copyright protection in China has significant real-world impact, including commercial uncertainty for right holders and permitting copyright pirates to profit at the expense of the legitimate rightholder. Furthermore, if right holders cannot enforce their copyright against pirated products manufactured in China, then this deprives them of a critical mechanism for preventing the export of such products.

66. *Third*, the United States has also demonstrated in its first submission that first sentence of Article 4 makes copyright protection subject to a formality that is inconsistent with Berne Article 5(2), and therefore also inconsistent with TRIPS Article 9.1.

67. China's submissions do not address the US concerns that the impact of content review on copyright protection constitutes a "formality" under Article 5(2). First, while China asserts that copyright protection and content review are separate and that the effect of a content review process does not deny copyright, this is contradicted by China's own statements. 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. China's own admissions related to the content review regulations confirm that works that have been found to contain such prohibited content would clearly come under the ambit of Article 4.1, as they are "unconstitutional". Therefore, by analogy, where pre-publication review is required and publication is prohibited until the completion of a successful review, Article 4 denies copyright to such works. This means that copyright protection is subject to the results of that review – i.e., to a formality.

68. Second, China's arguments regarding the alleged separation between the content review authorities and NCAC do not accord with the fact that Article 4 of the Copyright Law refers to other laws and regulations in China that prohibit the publication or distribution of works. First, China's current position does not sit well with the position that China expressed to WTO Members *before* having to respond in this dispute: during the 2002 WTO Review of Legislation in the TRIPS Council, China explained that the copyright denial in Article 4 is the result of prohibitions in other laws, not a separate assessment by NCAC. Second, prominent Chinese copyright scholars writing at the time of the adoption of Article 4 have confirmed that the intended purpose of promulgating Article 4.1 was to deny copyright protection to works for which the publication or distribution of which are prohibited by other laws.

69. Third, the power to interpret Chinese law rests with the Standing Committee of the National People's Congress. Because the NCAC does not have delegated authority by the Standing Committee, its actions do not represent a definitive interpretation of Article 4, at least with respect to China's TRIPS obligations to afford civil and criminal remedies for copyright infringements heard by the courts and procuratorate.

70. Moreover, China's discussion of a NCAC reply in the *Zheng Haijin* case fails to show that the content review process is separate from copyright in the work. The guidance issued by China's Supreme People's Court (SPC) in this case appears to demonstrate that the SPC considered that copyright protection was contingent on the work's successful completion of content review. China's answer to the Panel's question regarding this SPC guidance document, however, is confusing. First, China's response acknowledges that, in the *Zheng Haijin* case, the SPC "endorsed the finding that there was no basis to deny the protection of the copyright law to the work." If China is stating that the SPC was endorsing a "finding" of the *content review* authority with respect to the *copyright law*, then that confirms the US view.

71. However, if China is suggesting that the SPC was merely endorsing a lower court's finding, then that suggestion sits very uneasily with what the SPC actually said. The SPC states that "*therefore"* (i.e., for those reasons stated in the document) the lower court's protection of copyright was correct. The United Front Department's review and approval were indispensable to the court's opinion. Additionally, China's assertion in its answer that the "not yet been approved for publication" defense would fail is unsupported by the *Zheng Haijin* case, as the case demonstrates that, even where book numbers rather than content are at issue, courts examine the content of a publication before deciding whether or not copyright is protected.

72. China claims that Article 4 "would not remove the "residual copyright under Article 2," but rather, would "deny the particularized rights of private copyright enforcement" to works that are determined to be prohibited by law. However, Berne Article 5(2) states that both "the enjoyment and exercise of rights shall not be subject to any formality." Therefore, a content review that affects the exercise of an author's rights still would impose a "formality" under the Berne Convention.

73. *Fourth*, a consequence of the China's denial of copyright protection under Article 4 is that the provisions of Chapter V of China's Copyright Law are unavailable with respect to such works. Therefore, authors of such works do not benefit from the remedies specified in Articles 46 and 47 of this law which provide civil liability (and in some cases, administrative and/or criminal liability) for copyright infringement. Moreover, authors cannot take advantage of other remedies provided by Articles 48 and 49 of this law that, respectively, provide for monetary damages and the ability to seek a court order to stop an infringement that is being committed.

74. China is therefore not in compliance with its obligations under TRIPS Article 41.1 to ensure that enforcement procedures as specified in Part III of the TRIPS Agreement (including those provided by Articles 42, 44.1, and 45.1) are available to copyrighted works in order to permit effective action and expeditious remedies against copyright infringements. Furthermore, 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. China is thus not meeting its obligations under TRIPS Article 61, first and second sentence.

75. Finally, Berne Article 17 does not authorize a content review system that denies enforceable copyright protection (including denial of protection of the rights of reproduction, adaptation, etc.) to all works that have not been approved for publication or distribution. The United States challenges the TRIPS-inconsistent copyright consequences of Article 4.1. That is, the content review measures do not create the TRIPS-inconsistency; rather they provide one important basis for the Article 4.1 denial of copyright protection.

V. CONCLUSION

76. The United States respectfully requests the Panel to find that China's measures, as set out in the US panel request and discussed in the submissions of the United States, 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 the TRIPS Agreement.

ANNEX A–5

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

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 US 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 US 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 US 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, US 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 US 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 US 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' 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 US 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.

ANNEX A–6

EXECUTIVE SUMMARY OF THE CLOSING ORAL STATEMENT OF THE UNITED STATES AT THE SECOND SUBSTANTIVE MEETING

I. INTRODUCTION

1. We noted yesterday that the second panel meeting is an appropriate time to take stock of where we are. It is also an appropriate time to recall the context within which this dispute comes before you.

2. This dispute is about the legal regime that China has put into place for protecting and enforcing IPR. More precisely, it is about three specific aspects of that regime. In short, our claims are these: the negotiators of the TRIPS Agreement set out a structure of rules for WTO Members to follow with respect to the protection and enforcement of intellectual property rights. In each of the three claims that we have advanced in this dispute, we seek to ensure that such rules are in place in China, and that the rules are in accordance with the negotiated disciplines. In our submissions, we have shown that – unfortunately – they are not.

II. CHINA'S CRIMINAL IPR THRESHOLDS FOR CRIMINAL PROCEDURES AND PENALTIES

3. Turning to the first aspect of China's legal regime that we have challenged, we would like to make one general observation at the outset: The fact that the measures at issue are criminal measures does not shield them from examination by this Panel. In that regard, we found surprising China's assertion in paragraph 28 of its Oral Statement yesterday. China asserted that this dispute "marks the first time that a WTO panel has been called upon to adjudicate a matter of domestic criminal law." As a responding party in at least two disputes that involved aspects of our criminal law – *i.e.*, the *US – Gambling* dispute (in which China participated as a third party) and the *US – 1916 Act* dispute – the United States can assure the Panel that this is indeed not the case.

4. Turning to the text of the pertinent TRIPS provision, Article 61, first sentence, we have provided a full explication of how the term "commercial scale" should be interpreted, using the customary rules of interpretation in the *Vienna Convention*, to assist the Panel in developing an analytical framework for interpreting and applying the term "commercial scale" in Article 61 of the TRIPS Agreement.

5. We request in particular that the Panel reject China's invitation to substitute the term "significant magnitude of activity" for "commercial scale". It would be misguided to substitute a different form of words for the term that was agreed upon by the TRIPS negotiators. As other WTO panels and the Appellate Body have done for so many other terms in the WTO Agreements, this Panel is called upon to develop a sound analytical framework by which to interpret and apply the "commercial scale" standard, not a substitute form of words.

6. As we have stated in our submissions, although "commercial scale" has a clear meaning, that does not imply that every act of counterfeiting or piracy will be analyzed in an identical fashion. As is often the case with such standards, the individual *circumstances* will make a difference. Indeed, we have provided in our submissions an analytical framework for interpreting and applying the term "commercial scale" that recognizes that what is "commercial scale" in any specific case will vary.

7. In our discussions with the Panel yesterday, we addressed how to determine whether a Member complies with this obligation. In this regard, the United States and third parties have mentioned a variety of factors that could be considered. But, the question arises, can we enumerate which factors are relevant to the interpretation and application by this Panel of the term "commercial scale"?

8. The answer is that all of the factors identified by the United States and third parties are *potentially* relevant. This would include factors such as the market for the infringed goods, the object of the infringement, the magnitude or extent of the infringement, the value of the infringed goods, whether the infringer is seeking financial gain, the means of producing the infringing goods, the means of distributing the infringing goods, the marketing and solicitation of business, the intended use of the infringing goods, the impact of the infringement on the right holder, and the involvement of organized crime.

9. Yet, it is difficult to present an exhaustive list of potentially relevant factors. That is because 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.

10. At the same time, it is important to point out that a Member's criminal law need not consist of a catalog of all the potential ways of measuring commercial scale. The TRIPS obligation requires a legal regime that criminalizes all wilful counterfeiting and piracy on a commercial scale, but it does not mandate specific forms of legislative drafting. The Panel must consider whether China's law results in a safe harbor that eliminates the possibility of criminal liability for acts that are objectively "on a commercial scale."

11. China's thresholds do not permit a consideration of these factors apart from the numerical thresholds themselves and thus, as the United States has demonstrated, they miss classes of "commercial scale" piracy and counterfeiting. We have carefully described China's thresholds for Articles 213, 214, 215, 217, and 218 in turn, pointing out exactly how they miss "commercial scale" activities. For example, we show how the "illegal business volume" threshold under Article 213 shields actual business activity – clearly an example of "commercial scale". Further, it is difficult to see how making or selling a little less than $6,900 worth of counterfeit personal care products or small electronics would not be "on a commercial scale."

12. Additionally, while China has rhetorically focused on a single sale of an infringing copy, we should turn our attention back to China's Article 217 copy threshold of 500 copies. The reality is that in China, a producer can make 499 copies, or a retailer can sell 499 copies, and escape prosecution thanks to the safe harbor created by the thresholds for Article 217. Again, an examination of the analytical framework and factors noted by the United States and many Third Parties demonstrates that this conduct is "on a commercial scale."

13. Likewise, "commercial scale" certainly extends to those who are genuinely engaged in commercial activities in order to make a financial return. The United States has provided a number of concrete illustrations of "commercial scale" activities related to trademark counterfeiting and copyright piracy at various stages of the commercial supply chain in China – including manufacturing, wholesaling, and retailing. In this connection, we have shown that the Chinese marketplace is characterized by small manufacturers, middlemen, and distributors, and that retail commerce is conducted through small outlets. (Moreover, China now agrees that it is not just manufacturing that can occur "on a commercial scale.")

14. Indeed, the seizure data provided by the CCA Report in Exhibit US-41 reinforces these points, since they provide a specific snapshot of the "scale" of "commerce" in China for certain counterfeit or pirated products. Each page of the seizure data appended to the report lists businesses

operating "on a commercial scale" and in many cases, raids conducted by China's own authorities netting seizures below the thresholds in effect at the time. Retail outlets – classic examples of commercial scale – can and do operate beneath the thresholds, and thus without the possibility of criminal prosecution and conviction under China's thresholds. (We would also note that the seizure data submitted by Nintendo confirms these points in many respects.)

15. Finally, China introduces a number of arguments that invite the Panel to focus on peripheral matters, such as the size, scope, or impact of the breach, rather than on whether there is a breach in the first place. (The same is true for our other two claims as well.) However, this approach does not provide a viable defense. Again, we only seek to have in place in China the rules required by the TRIPS Agreement.

III. CHINA'S BORDER MEASURES FOR DISPOSAL OF CONFISCATED GOODS

16. We turn next to the second aspect of China's legal regime that we have challenged: China's customs measures. We have explained that, as the text of China's Customs Implementing Measures states, certain facts trigger certain mandatory outcomes. And we have further explained that a number of those outcomes are inconsistent with the TRIPS Agreement.

17. In paragraph 66 of its oral statement yesterday, China suggested an analogy between a finding of guilt in a criminal case and Chinese Customs authorities' purported "discretion" to make findings as to the existence or non-existence of the factual predicates triggering the mandatory disposal or destruction options under the China Customs Implementing Measures.

18. China's analogy actually illustrates the contrary point: Customs has no "discretion" to do other than what the facts and the text of its measures require, just as a Chinese court presumably has no "discretion" in determining the fact of guilt or innocence in a criminal case. By law, they are bound to pursue the step dictated by the facts.

19. If other laws constrain Chinese Customs officials' actions as well, they may shift what option is or is not operative under given facts, but they do not change the mandatory nature of the Chinese disposal/destruction hierarchy. Non-Customs laws, referred to nowhere in the Customs measures, cannot contradict the specific, mandatory directives of the regime outlined in the Customs measures. We respectfully request that the Panel reject any suggestion to the contrary.

IV. ARTICLE 4 OF CHINA'S COPYRIGHT LAW

20. We turn finally to the third aspect of China's legal regime for IPR protection and enforcement that we have challenged: the first sentence of Article 4 of the Copyright Law. Here, too, China's rules fail to meet the disciplines that have been negotiated. In this case, the failure arises out of China's outright denial of copyright protection to an entire class of works, contrary to the provisions of the Berne Convention (and thus contrary to the provisions of the TRIPS Agreement).

21. The text of Article 4.1 is clear, unambiguous, and undisputed. It denies copyright protection to any work that cannot lawfully be published or disseminated in China – not just the illegal content in a work. We note in passing that from time to time, China has appeared to suggest that Article 4.1 applies only to illegal "content" – but nothing in Article 4.1, or anywhere else, supports those suggestions. Indeed, the text of Article 4.1 – and for that matter the text of Article 2.2 – uses the word "works," not "content".

22. China's defense largely rests on creating an artificial distinction between copyright and copyright protection. But, as we have emphasized, the Berne Convention and the TRIPS Agreement

do not countenance a distinction between "copyright" and "copyright protection" – rights holders are entitled to have their copyrights *protected*.

23. In addition, the evidence presented by both parties makes clear that, in some cases at least (including the situation considered by the Supreme People's Court in the *Zheng Haijin* matter), works are either subject to mandatory pre-publication review or must be reviewed by the relevant content review authority or the courts before a decision is made on whether or not copyright in that work is protected. Furthermore, China has acknowledged the close overlap between the standards for content review and the standard for what is "prohibited by law" for purposes of Article 4.1. Thus, in such circumstances, copyright protection in China is subject to the formality of content review (and to the uncertainty of the Chinese Government's current content preferences).

24. Finally, China argues that Article 17 of the Berne Convention authorizes the first sentence of Article 4. However, as we have emphasized in our rebuttal and during this meeting, censorship and copyright cannot be equated. In this dispute, we are challenging the *copyright consequences* of the choices that China has made. Article 17 does not permit China to eliminate copyright protection, and thus Article 17 does not shelter the first sentence of Article 4 of China's Copyright Law.

ANNEX B

SUBMISSIONS OF CHINA

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ANNEX B–1

EXECUTIVE SUMMARY OF THE FIRST WRITTEN SUBMISSION OF CHINA

I. INTRODUCTION

1. The United States falls far short of meeting its burden of showing that China is noncompliant with its obligations under the *Agreement on Trade-Related Aspects of Intellectual Property Rights* ("TRIPS"). In its first written submission, the United States has consistently mischaracterized Chinese law and practice. The United States has also sought to expand significantly the scope of Members' obligations under TRIPS; and it has disregarded the very first paragraph of the Agreement: "Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal systems."

2. In its *Claim One* (Section IV of the US Submission), the United States has failed to demonstrate that China's criminal law is inconsistent with China's obligations under TRIPS. The US argument is based on a formulation of TRIPS Article 61 that was expressly rejected at the time TRIPS was negotiated. Contrary to the US claim, China faithfully complies with its obligations under TRIPS by providing criminal procedures and penalties for willful counterfeiting and piracy that are appropriate within the commercial context and legal structures of China.

3. In its *Claim Two* (Section V of the US Submission), the United States misstates China's TRIPS obligations, mischaracterizes Chinese Customs' practices, and accordingly, has failed to demonstrate that Chinese Customs deals with seized infringing goods in a manner that is inconsistent with TRIPS Article 59.

4. In its *Claim Three* (Section VI of the US Submission), the US argument is based on fundamental errors in the understanding of Chinese copyright law. The United States' chief concern in its third claim – and its central misunderstanding – is that China's laws do not provide automatic and immediate copyright protection. The US claim collapses when this error is corrected.

5. Further in regard to its Claim Three, the United States fails to make a *prima facie* case as to assertions in its pleadings relating to TRIPS Article 3 (national treatment) and Article 14 (related rights).

II. CHINA'S CRIMINAL THRESHOLDS ARE CONSISTENT WITH CHINA'S OBLIGATIONS UNDER TRIPS ARTICLES. 61 AND 41.1

A. CHINA'S INTELLECTUAL PROPERTY ENFORCEMENT REGIME

6. China has three legal regimes for the enforcement of intellectual property rights: criminal, administrative and civil enforcement. China employs all three regimes in its efforts to combat counterfeiting and piracy. Criminal measures are used against counterfeiting and piracy when those acts are undertaken on a sufficient scale to exceed China's thresholds for criminal enforcement and China also takes government action against activity through its administrative law enforcement system. Alongside these two forms of government action, China makes civil enforcement rights available to intellectual property rights holders.

1. China has imposed criminal sanctions on willful trademark counterfeiting and copyright piracy on a commercial scale

7. China presents a detailed description of its criminal law regime for intellectual property. China explains each of the criminal laws that concern intellectual property infringement, the specific thresholds of activity that trigger criminal sanctions under each law, and the calculation of these thresholds. China further explains that criminal penalties are available in instances of unfinished products or indicia of commercial scale infringement; and that Chinese law allows for private individuals to initiate criminal action.

8. In the course of describing this legal regime, China endeavors to address and correct numerous US misstatements and mischaracterizations. In describing Chinese criminal law, the United States has misrepresented the scope of China's "illegal business operation volume" threshold for criminal activity, ignoring the fact that Chinese authorities include evidence of infringing goods at other warehouses, in transportation, and already sold. The United States has disregarded China's cumulative calculation of criminal thresholds over the multiple years of the criminal activity. It has ignored the alternative nature of the thresholds under several of China's laws, which is to say that infringement triggers criminal enforcement if it meets any one of the criminal thresholds. Finally, the United States has wrongly claimed that China may not administer criminal penalties for unfinished products and indicia of infringement, when Chinese law clearly provides otherwise.

2. China employs an administrative enforcement regime that imposes significant deterrence on Intellectual Property infringement beneathcCriminal thresholds

9. China describes the government administrative enforcement regime that operates separately from the criminal law, and is not subject to the minimum thresholds of criminal law. China's administrative enforcement system is a unique feature of China's legal structure that does not have a parallel in most Western systems, including the US legal system. Contrary to the US assertion that the thresholds in Chinese criminal law create "a safe harbor" for low-level intellectual property infringement, China in fact operates a government-led enforcement system to which infringement on any scale is subject. Low-level intellectual property infringers do not operate free of government-led enforcement in China.

3. The US assertions on infringement trends are unfounded

10. China addresses the US allegation that a high proportion of copyright infringement cases fall beneath the numerical thresholds and that infringers reduced their volume of copies to avoid criminal liability when the criminal thresholds were lowered. The dataset on which the United States relies comes from administrative raids carried out at the request of the right-holders themselves: its probative relevance is unclear, and in any event, the data does not support the US assertions of statistical trends.

B. THE UNITED STATES BEARS AN ESPECIALLY HIGH BURDEN OF PROOF IN ADVANCING THE CLAIM THAT CHINA FAILS TO MEET ITS ARTICLE 61 OBLIGATION

11. As the complaining party, the United States bears the burden of proof in advancing the argument that China's criminal enforcement regime does not comply with the obligation articulated in TRIPS Article 61. In this particular instance, however, the United States bears a significantly higher burden than it would normally encounter. That is because the United States is advancing a claim – that Members of TRIPS must enact criminal laws that meet highly specific international standards – that cuts decisively against the tradition and norms of international law.

12. International organizations accord great deference to national authorities in criminal law matters. A review of international law shows that states have traditionally regarded criminal law as the exclusive domain of sovereign jurisdiction; where sovereign governments are subject to international commitments concerning criminal law, these commitments afford significant discretion to governments regarding implementation; and international courts have been exceedingly reluctant to impose specific criminal standards on states.

13. In light of prevailing international law, the United States must not merely show that its proposed interpretation of the TRIPS Article 61 obligation is correct by ordinary standards. It must also persuade this panel that the parties to TRIPS agreed to an obligation to reform their criminal laws of such specificity that it is a sharp departure from the practice of every country in every other international forum that relates to national criminal laws.

C. TRIPS ARTICLE 61 REQUIRES THAT MEMBERS SET FORTH CRIMINAL THRESHOLDS FOR COUNTERFEITING AND PIRACY WITHIN THE BROAD AND DISCRETIONARY MEANING OF "COMMERCIAL SCALE"

14. TRIPS Article 61 declares that "Members shall provide for criminal procedures and penalties to be applied at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale." The core of the dispute between the United States and China is the meaning and scope of "commercial scale". The United States advances a proposed definition that is inconsistent with the ordinary meaning and that was expressly rejected by the TRIPS negotiators.

15. The obligation set forth in Article 61 is that Members impose criminal penalties for willful infringement that involves a significant magnitude of activity, as appropriate within the commercial context and legal structures of the Member. China meets this obligation.

1. The ordinary meaning of "commercial scale" is not any scale of activity undertaken for financial gain

16. The United States sets forth a deeply flawed definition of "commercial scale". The United States argues that the ordinary meaning of "commercial scale" may be adduced by combining the ordinary meaning of "commercial" ("interested in financial return") and "scale" ("magnitude, extent, or degree"). By this synthesis, the United States claims, the term "commercial scale" has two distinct meanings and would capture two classes of activity: first, "commercial scale" would capture any activity that has the purpose of financial return. (That is, the single sale of an item for one US cent would constitute commercial scale activity). Second, "commercial scale" would also capture activities, "regardless of motive or purpose" that "are of a sufficient extent or magnitude to qualify as 'commercial scale' in the relevant market."

17. The US interpretation is inconsistent with the plain meaning of Article 61. The interpretation violates the principle that Article 61 must be read so as to give full effect to all words of the provision. The US definition also wrongly presumes that the meaning of the phrase "commercial scale" is nothing more than the sum of "commercial" and "scale".

18. In fact, a careful review of the common usage of the phrase shows that "commercial scale" refers to a significant magnitude of infringement activity. The World Intellectual Property Organization Committee of Experts on Measures Against Counterfeiting and Piracy set forth a definition of "commercial scale" in February 1988 that made abundantly clear that the phrase was intended to be a broad and flexible standard and also that it was designed to cover more than simply the "will to make profit". Other uses of "commercial scale" in GATT documents and by the United States Government itself support this interpretation of the phrase.

2. The context of Article 61 shows that Members never intended to bind themselves with specific, concrete standards for National Criminal Law

19. Following the *Vienna Convention on the Law of Treaties* ("Vienna Convention"), TRIPS Article 61 must be read in accordance with its context. Several elements of this deserve consideration.

20. First, TRIPS does not define what constitutes substantive infringement. Where both the scope of rights and the definition of the act that constitutes infringement is left to each country to define, it strains reasonable interpretation to find a specific, concrete threshold at which this undefined act must constitute a crime. At a minimum, there should be clear evidence that the parties agreed to such an odd structure. No such clear evidence exists.

21. Second, the lack of specificity in the language of Article 61 stands in sharp contrast to the specific provisions that are laid out in Articles. 42 through 48 of TRIPS. It also stands to contrast to the specific provisions set forth in the *Agreement on Implementation of Article VI of the GATT* and *Agreement on Subsidies and Countervailing Measures.* Where the negotiating parties wished to impose detailed and concrete obligations, they expressed that requirement of specificity in clear terms.

22. Finally, Article 61 must be understood in the context of Article 1.1, which sets out the "Nature and Scope of Obligations" for the entire agreement; and Article 41.5, which sets forth the "General Obligations" for "Enforcement of Intellectual Property Rights" in Part III of TRIPS. Articles 1.1 and 41.5 demonstrate that Members refused to accept TRIPS as an agreement that would force them into legal harmonization. On the contrary, they insisted on their rights to carry out enforcement in accordance with their own legal traditions and subject to the specific context – such as constraints on enforcement resources – of their respective circumstances. These Articles underscore not only that Article 61 should be read broadly, but that "commercial scale" was intentionally vague – and left undefined – precisely because a large bloc of Members would never have accepted a more specific and intrusive obligation.

3. The proposed US definition is inconsistent with the object and purpose of TRIPS

23. The Vienna Convention provides that a treaty must be interpreted "in the light of its object and purpose." The object and purpose of TRIPS, laid out clearly in the Preamble to the Agreement, are to enhance international trade though the protection of intellectual property within the framework of Members' legal norms and resource constraints. The object and purpose underscore that TRIPS Article 61 should not be read to harmonize legal systems across Members or to disregard Members' interests in developing criminal measures that reflect its own legal norms and public interests.

4. The subsequent actions of Members – including the United States – reveal that they understood "Commercial Scale" to impose only a broad and high standard

24. Members have consistently failed to interpret "commercial scale" to mean any activity undertaken for a commercial purpose. The experiences of the Canadian Government and the European Community show that they did not understand "commercial scale" to simply cover any activity undertaken for a commercial purpose.

25. The practice of the United States in its subsequent bilateral free trade agreements has been to define carefully "commercial scale" to cover any action for financial gain. There would be no reason to negotiate this definition with countries that already are subject to the TRIPS obligations, if the terms already had this meaning in TRIPS. On the contrary, the US insistence on developing a stricter definition in the bilateral context underscores that "commercial scale" as set forth in TRIPS is a broad concept that permits considerable national discretion. It is an acknowledgement that the United States

failed to secure in the TRIPS Article 61 negotiations the obligation that it nonetheless seeks to impose here.

5. The negotiating record shows that the parties understood "Commercial Scale" to set forth a broad standard to cover significant infringement activity

26. The negotiating record of TRIPS demonstrates convincingly that the "commercial scale" standard was proposed and adopted as a clear alternative to the formulation now advanced by the United States. The real TRIPS standard was understood to be broad and flexible and also to target counterfeiting and piracy of a significant scale. The negotiating parties, on multiple occasions, considered and rejected the formulation that criminal penalties apply to any counterfeiting or piracy conducted for commercial gain.

D. CHINA HAS IMPLEMENTED ITS ARTICLE 61 OBLIGATION TO IMPOSE CRIMINAL MEASURES AGAINST WILLFUL COUNTERFEITING AND PIRACY ON A COMMERCIAL SCALE

27. The "commercial scale" standard under TRIPS Article 61 is a broad standard, subject to national discretion and local conditions. The Panel, in considering whether China has fulfilled its obligation, should judge whether the criminal thresholds employed by Chinese law fall within the legitimate range of "commercial scale" and within the legitimate scope of sovereign discretion. Given the broad nature of the "commercial scale" standard and the importance of deference to national discretion, China respectfully proposes that the Panel determine whether China's law imposes criminal penalties for willful infringement that involves a significant magnitude of activity and that is appropriate within the commercial context and legal structures of China. China imposes criminal penalties for infringement activity that exceeds the thresholds set forth in its law. This leaves two issues for the Panel's consideration: are the criminal thresholds appropriate within the structure of Chinese law? And are the thresholds reasonable in the context of commerce within China?

1. The Panel should conclude that China's criminal thresholds are appropriate in light of the structure of China's criminal law

28. China employs thresholds across a range of commercial crimes, reflecting China's allocation and prioritization of criminal enforcement, prosecution and judicial resources. Consistent with its obligations under Article 61 and its rights under Article 41.5, China has set forth criminal measures for intellectual property infringement that are proportional to other commercial crimes.

29. The United States would require China to up-end its criminal law regime. It would require that China all but eliminate thresholds – according to the US formulation of "financial gain," the threshold would be RMB1 – and consequently create an unworkable regime of criminal law enforcement, and prioritize the criminal enforcement of intellectual property offenses over that of other extremely serious crimes, such as currency counterfeiting and bribery. This would be an audacious departure from the deference to national law and respect for the allocation of enforcement resources envisioned in TRIPS.

30. China has acted in good faith to implement its Article 61 obligation. China's criminal thresholds for counterfeiting and piracy are reasonable and appropriate in the context of its legal structures and its other laws on commercial crimes.

2. China's criminal thresholds are appropriate in light of the scale of commerce within China

31. The criminal thresholds are reasonable not just in terms of China's legal structure, but also in terms of the scale of commerce in China, a reasonable reference point for gauging a Member's

"commercial scale" thresholds. It is appropriate – in light of the meaning of "commercial scale" under TRIPS – for a Member to set thresholds that are related to the indicators of a sustainable commercial enterprise.

32. China has set forth an illegal business volume threshold – just one of several alternative criminal thresholds – that is significantly below the level at which even the smallest commercial enterprises operate in China. China has chosen its criminal thresholds not so as to minimize its obligations under TRIPS, but because in its sovereign judgment these thresholds best capture the points at which intellectual property infringement imperils the public order and warrants criminal enforcement.

3. The Panel should not consider the novel obligations that the United States seeks to impose on China

33. In assessing whether China has implemented its legitimate obligations to set forth appropriate criminal laws, the Panel should disregard the unfounded obligations that the United States seeks to impose on China. First, China does not have an obligation to consider the commercial impact of infringement. Under TRIPS, criminal enforcement is required if the infringing activity is on a commercial scale, not if the impact of the infringing activity is on a commercial scale.

34. Second, China does not have an obligation to relax or change its evidentiary standards. The United States argues that because certain evidence of infringement – such as the volume of goods stored in warehouses or already sold – may not always be available to Chinese authorities, then, for that reason, the criminal thresholds are overly high. In fact, China fully complies with its TRIPS obligation by setting forth a reasonable "commercial scale" standard for the application of criminal procedures and penalties. TRIPS imposes a substantive legal obligation and China meets it. The evidentiary procedures that China employs in determining whether or not certain infringement meets this commercial scale have no legal relevance.

E. CHINA FULFILLS ITS OBLIGATIONS UNDER THE SECOND SENTENCE OF ARTICLE 61 AND ARTICLE 41.1 TO AFFORD REMEDIES AND PROCEDURES PURSUANT TO THE FIRST SENTENCE OF ARTICLE 61

35. The United States argues that China also breaches the second sentence of Article 61 and Article 41.1. However, both these provisions are conditional on the first sentence of Article 61. Unless the United States can demonstrate that China breaches its obligations under the first sentence of Article 61, it cannot demonstrate that China also breaches its obligations under the second sentence of Article 61 and Article 41.1. Having failed at the former task, the United States fails at the latter.

III. CHINA'S MEASURES FOR THE DISPOSITION OF INFRINGING GOODS SEIZED BY CUSTOMS ARE CONSISTENT WITH CHINA'S OBLIGATIONS UNDER TRIPS ARTICLE 59

36. In its Claim Two, the United States alleges that Chinese Customs' legal framework for dealing with seized infringing goods is inconsistent with TRIPS. Specifically, the United States argues that Chinese Customs does not have the authority to order the disposal of infringing goods outside the channels of commerce in such a way as to avoid harm to the right-holder ("disposal authority"), or to order the destruction of such goods ("destruction authority"). The US argument is based, in part, on a misstatement of China's law concerning the disposition of infringing goods; and, in part, on the faulty premise that Chinese Customs lacks the authority to destroy infringing goods if destruction is not the government's preferred method of disposition.

37. China fully satisfies its TRIPS obligations: Chinese Customs has the required disposal authority, reflected in its power both to allow the donation of infringing goods to social welfare organizations as well as to allow the sale of such goods to their right-holders. Chinese Customs also has destruction authority, as evident in its discretionary power to determine whether infringing goods qualify for destruction. China notes that, while TRIPS requires that Chinese Customs have the appropriate disposition authority, TRIPS does not limit Customs to dealing with infringing goods only by the means set forth in TRIPS.

A. CHINESE CUSTOMS' DISPOSITION OF INFRINGING GOODS

38. China presents detailed descriptions of the four alternative disposition methods available under Chinese law to the General Administration of Customs of the People's Republic of China ("Customs"). First, Customs has the authority to donate infringing goods to social welfare organizations, if it determines that the goods are suitable for such purposes and do not pose health or safety risks; Customs has the legal responsibility of ensuring that donated goods are exclusively used by social welfare organizations and that they are exclusively used for social welfare purposes. Second, Customs has the authority to enter into a voluntary sale of the infringing goods to their right-holders. Right-holders may choose to purchase infringing goods where, for example, these seized goods are determined to be overruns illicitly produced by a licensed manufacturer, and are therefore identical to the licensed goods. Third, Customs has the authority to publicly auction infringing goods, if Customs has decided that the first two disposition methods are not available, and also if it has formally solicited comments from the right-holders, determined that the goods do not pose health or safety risks, and concluded that the auction is cost-effective, and removed all infringing features. Finally, Customs has the authority to destroy infringing goods, if it has determined that the other disposition methods are not available.

B. CHINA COMPLIES WITH TRIPS ARTICLE 59 BECAUSE IT PROVIDES BOTH DISPOSAL AND DESTRUCTION AUTHORITY

39. TRIPS Article 59 (which incorporates the first sentence of Article 46) requires that China's Customs have the authority to order that infringing goods be "disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, or… destroyed."

40. Article 59 does not require that China limit Customs' disposition methods to disposal outside the channels of commerce and to destruction. Customs must have the authority to use both such methods, but Article 59 does not impose the obligation to use solely those authorities. The standard for compliance with Article 59 is that, first, Customs has the authority to dispose of infringing goods outside the channels of commerce in such a way as to avoid harm to the right-holder and, second, Customs has the authority to destroy infringing goods. China's Customs, contrary to US allegations, possesses both disposal authority and destruction authority.

1. China's Customs has the authority to dispose of infringing goods outside the channels of commerce while avoiding harm to the interests of the right-holder

41. China's Customs has the authority to order that infringing goods be "disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder," by virtue of its power to sell infringing goods to their right-holders and, independently, by virtue of its power to donate infringing goods to social welfare organizations. In both circumstances, Customs has the authority to dispose of the infringing goods outside the open market while paying due regard to interests of the right-holders.

2. China's Customs has the authority to destroy infringing goods

42. China's Customs possesses the authority to order the destruction of infringing goods, as referenced in TRIPS Article 46 and incorporated in Article 59. Chinese law sets forth criteria for the disposition of infringing goods by Customs. These criteria reflect an official preference for the use of other disposition methods, but Customs has the legal discretion to determine whether the criteria are met and therefore which disposition method is appropriate.

43. The US first written submission itself, as well as US and other Member practice, makes it clear that "authority" was never intended to be absolute and unconditional. The sequencing of disposition methods, coupled with Customs' discretion to determine whether the relevant criteria have been met, is consistent with a grant of destruction authority.

44. Indeed, Customs chose to destroy 58 per cent of the total value of infringing goods between 2005 and 2007. This is demonstrative proof that the putative hierarchy of disposition options does not hinder Customs' ability to order destruction of infringing goods.

C. CHINESE CUSTOMS' USE OF PUBLIC AUCTION IS WHOLLY CONSISTENT WITH ITS OBLIGATIONS UNDER TRIPS

45. The United States alleges that Chinese Customs' public auction of infringing goods breaches Article 59. While TRIPS Article 59 requires that Customs have both disposal authority and destruction authority, it does not limit Customs to those two methods of disposition. TRIPS does not forbid the use of public auction. And in practice, Customs rarely uses public auction. This method of disposition accounts for only 2 per cent of the total value of infringing goods.

1. TRIPS Article 59 does not require Members to limit the disposition of infringing goods to disposal outside the channels of commerce or destruction

46. The plain meaning of "authority," plus Member practice on the disposition of infringing goods, and the negotiating history of Article 59, all underscore the fact that although Members must afford to their customs agencies both disposal authority and destruction authority, they are in no way required to limit their customs agencies to disposal outside the channels of commerce and to destruction. Customs' authority to publicly auction infringing goods is wholly consistent with Article 59.

2. Public Auction is consistent with the guiding principles of Articles 46 and 59

47. The two stated principles of Article 46 (and therefore Article 59) is "to create an effective deterrent to infringement" and to "avoid any harm caused to the right holder." Public auction is consistent with both these principles. First, infringers whose goods are auctioned are left in exactly the same position as if the goods had been destroyed: in both instances the infringers lose the goods without any compensation. Moreover, Customs' use of a reserve price at the auctions ensures that infringers do not have the opportunity to purchase the seized goods at the public auction at an unreasonably low cost and use these goods in furtherance of counterfeiting activity. Second, right-holders have a legal, formal right to comment prior to any public auction; this procedure helps Customs to determine that a good would be inappropriate for public auction, and thereby helps avoid harm to the right-holders.

D. CHINA DISCHARGES ANY LEGAL OBLIGATIONS ASSOCIATED WITH THE FOURTH SENTENCE OF TRIPS ARTICLE 46

48. The United States contends that China also breaches TRIPS in so far as Customs' use of public auction – one of four available disposition methods – "is inconsistent with the principle in the fourth sentence of Article 46." While the United States appears to advance two different versions of this argument, neither is credible.

49. If the United States argues, as it does in the "Introduction" to its first written submission, that the fourth sentence of Article 46 means that Customs must have the authority to keep infringing goods outside the channels of commerce, the foregoing sections demonstrate that Customs has this authority.

50. If the United States argues that the fourth sentence of Article 46 imposes a ban on the return of trademark-infringing goods to the channels of commerce, then it fails to show that the fourth sentence of Article 46 is incorporated into Article 59 and (therefore imposes an obligation on Customs), and further fails to show that Customs has breached the obligation expressed in the first sentence of Article 46.

1. The fourth sentence of Article 46 is not incorporated into Article 59 and therefore does not apply to China's Customs

51. The plain text of TRIPS suggests that the fourth sentence of Article 46 does not apply to Article 59. The parties to TRIPS considered the treatment of counterfeit trademark goods by customs authorities and dealt with it specifically in Article 59. If the parties had intended further obligations they would have listed them there.

2. If the fourth sentence of Article 46 is incorporated into Article 59 and does impose an independent obligation, China is compliant

52. Even if the fourth sentence of Article 46 were incorrectly read to set forth an independent obligation on Customs authorities, China's Customs would fulfill this obligation.

53. First, Chinese Customs has an obligation to remove all infringing features, not just the trademarks, from the seized goods. Second, in addition to removing the trademark, Customs must formally solicit comments from the right-holder. Formal comment is a meaningful step, which allows right-holders to identify specific concerns – such as any safety threats that the goods pose, or the presence of proprietary design features that cannot be removed – and allows Customs to determine that an auction would not be appropriate. Customs has the legal discretion to reject public auction after consulting with the right-holders.

IV. CHINA'S MEASURES FOR THE PROTECTION AND ENFORCEMENT OF COPYRIGHT AND RELATED RIGHTS ARE CONSISTENT WITH CHINA'S CBLIGATIONS UNDER TRIPS

A. OVERVIEW

54. China maintains government review and approval processes with respect to the publication and distribution within China of a variety of works, including films and DVD releases. In general terms, a work subject to these processes may be published or distributed only if the required authorization is obtained. The United States does not object to the existence of these processes, nor could it. This sovereign right is an inherent, reserved power – acknowledged by international law as referenced in Article 17 of the Berne Convention for the Protection of Literary and Artistic Rights

("Berne Convention"), and expressly incorporated into the WTO structure through Article 9.1 of the TRIPS Agreement.

55. The US Claim Three, which deals with these mechanisms, is based on a fundamental misstatement of Chinese law.

56. First, the vast majority of the US claim is based on the erroneous allegation that works that have not completed government content review, including works not yet submitted for review and works awaiting review, are denied copyright protection. They are not denied copyright protection. Chinese law protects copyright from the time a work is created. Article 2 of the Copyright Law of the People's Republic of China ("Copyright Law"), which goes unmentioned in the US first written submission, grants full copyright protection both prior to and during authorization review. It does so by expressly incorporating into Chinese law the rights conferred under international agreements including both the Berne Convention and the TRIPS Agreement.

57. Second, the United States contends that works that fail content review are denied copyright protection under Article 4.1. This also is false. The content review process operates independently of Copyright Law Article 4.1. The only result of a finding of prohibited content through the content review process is a denial of authority to publish. Such a finding does not lead to a denial of copyright, and China is not aware that a finding in a content review process has ever led to a denial of copyright protection. The remainder of the US claim fails for this reason.

B. THE US CLAIM RESTS ON A MISSTATEMENT OF CHINESE LAW

1. Contrary to the US claim, copyright protection under Chinese law attaches to works upon creation, and is not dependent upon content review

58. While publication for certain types of works within China requires content review, copyright in such works vests upon creation and is independent of publication. While such works are pending review they enjoy the full panoply of copyright.

59. Under Article 2 of China's Copyright Law, foreign authors from TRIPS Member states enjoy automatic protection of copyright upon completion of a work, as does any Chinese citizen. This protection applies equally to works that have not been submitted for review and to works that are pending review, and indeed regardless of whether the work is officially published in China at all. The US contention that copyright protection is in any way contingent on content review is simply wrong as a matter of law.

2. Contrary to the US claim, prohibition of publication as a result of content review does not trigger denial of copyright

60. The second principle error of the United States lies in its contention regarding the legal effect of denial of a license to publish or distribute a work. The United States asserts that such denial leads also to a denial of copyright under Article 4.1 of the Copyright Law. In fact, this is not the case. The content review process operates independently of Article 4.1, and the only result of a finding of prohibited content in that process is a denial of authority to publish. Nothing in that finding leads to a denial of copyright.

61. The administration of content review, on the one hand, and the administration of the copyright laws, on the other hand, are separate, independent processes. Content review is conducted by administrative agencies under the State Council, not the courts. In contrast, copyright is enforced by the Chinese judicial system, and by the National Copyright Administration of China ("NCAC")

and its local affiliates. Neither of these bodies responsible for copyright is bound by administrative agency findings in the content review processes.

62. The United States erroneously tries to link the vesting of copyright with the successful completion of review. But the result of content review is a license enabling distribution, not an award of copyright. Under Article 2 of the Copyright Law of the People's Republic of China, in full compliance with Berne Article 5(2), copyright vests automatically and is recognized without administrative formality.

63. Content review is an independent and unrelated process that does not determine whether a work is copyrighted.

C. CHINA PROTECTS COPYRIGHT IRRESPECTIVE OF CONTENT REVIEW PROCESSES

64. The United States draws four conclusions from its erroneous interpretation of Chinese law. The United States alleges that China does not protect copyright for (1) works that have not been submitted for content review, (2) works that are pending content review, (3) unedited versions of works that have been edited to pass content review, and (4) works that have failed content review. In reality, none of these assertions is correct. China in fact protects works regardless of a work's status under content review.

1. China's right to conduct content review is not in question

65. The United States does not challenge China's right to conduct content review, and such a challenge would not be successful. The sovereign right of governments to regulate and even prohibit the content of works clearly authorizes China's content review mechanisms.

66. Berne Article 17 provides:

> "The provisions of this Convention cannot in any way affect the right of the Government of each country of the Union to control, or to prohibit by legislation or by regulation, the circulation, presentation, or exhibition of any work or production . . . ."

67. Thus, all rights granted to authors under the Berne Convention are limited by Berne Article 17. The plain meaning of Berne Article 17, and of official WIPO commentary, as well as every treatise on the topic, supports this view. This recognition is carried into TRIPS Article 9.1, which adopts Berne Article 17.

68. Moreover, the power to protect the public wellbeing is inherent and incidental to sovereignty. Article 17 of the Berne Convention is not an exhaustive codification of the sovereign right to censor, but instead merely references this power, stating that the Convention's provisions cannot in any way limit this sovereign privilege.

2. China protects copyright in works that have not been submitted for review and works that are currently pending content review

69. The first two points of contention raised by the United States involve works that have not been submitted for content review, and works that are pending content review.

70. Copyright vests in a work prior to any consideration being given to content review processes, and is not delayed to await the conclusion of those processes. This conclusion is demonstrated not only by legal analysis, but also by actual practice in China.

71. China presents actual cases demonstrating that its law operates unequivocally to grant copyright protection to works that are pending content review, and for works that have not yet been submitted for content review, and for works that do not require such review.

72. China respectfully notes that the US first written submission provides neither a legal analysis nor any valid examples to support its claim with respect to the supposed lack of protection of copyright in works that have not been submitted or that are currently pending review. In contrast, China has provided both.

3. China protects the copyright in unedited versions of works that have been edited in content review, and in works that have failed content review

73. The third and fourth elements of the US allegation are that copyright is denied to the unedited version of works that are found, in the publication review process, to contain prohibited content, and that copyright is denied to works that have failed the content review process.

74. Neither US allegation is correct. On the contrary, China demonstrates that, in the case of films, for example, works that fail content review, works that were edited to pass content review, and works that are un-reviewed are all protected by copyright enforcement actions initiated by the NCAC.

75. The United States has neglected to offer any legal analysis to support its interpretation of Chinese law, and also has failed to offer any example of copyright being denied to an unedited version or to a work that has failed content review. The United States has not provided to the Panel a single example of a case where a defendant in a copyright infringement action successfully has asserted a defence that the work did not enjoy copyright because it failed a content review process. China respectfully submits that its Supreme People's Court is not aware of a single instance in which such a defense has successfully been asserted.

D. SINCE CHINA DOES NOT FAIL TO PROTECT COPYRIGHT IN THE INSTANCES ALLEGED BY THE UNITED STATES, CHINA DOES NOT FAIL TO COMPLY WITH ITS OBLIGATIONS UNDER TRIPS

76. The entire second part of the US argument on Claim Three details the supposed international rights that are denied by China's alleged failure to protect copyright. As demonstrated above, the US allegations of copyright denial are false, being founded on a major error in understanding Chinese law. Since copyright is not denied, none of the rights enumerated in the second part of the US argument are in fact violated.

77. At paragraphs 215-219 of its first written submission, the United States alleges that a denial of copyright protection under Copyright Law Article 4.1 is an unauthorized "exclusion" of a class of works from copyright protection, and that such denial abrogates certain rights specified in those paragraphs that are guaranteed to authors by the Berne Convention. This claim does not survive the argument presented by China in its first written submission, which demonstrates that Article 4.1 simply does not act in the manner alleged by the United States. China respectfully submits that the US case fails because of a complete misapprehension of Chinese law in this regard. China further notes that to the extent that Article 4.1, independently of the content review process, might act to deny copyright protection to a work found by a court to be "prohibited by law" – a case the United States has not attempted to make – this act of prohibition is protected by Berne Convention Article 17. The denial of copyright protection in such a case, i.e. taking from an author the right to limit the distribution and use of a work whose distribution is completely banned, is a legal and material nullity. The economic rights accorded to authors and artists under the Berne Convention equate to a private right of censorship – rights that are preempted when there is supervening public prohibition as expressly authorized by Berne Article 17. The United States has not demonstrated that the failure to

protect copyright in such works further reduces any rights of authors beyond the act of prohibition itself.

78. At paragraphs 220-225 of its first written submission, the United States alleges that a content review process imposes a prohibited "formality" on the grant of copyright. This contention does not survive the argument presented by China in its first written submission, which demonstrates that recognition of copyright is in fact not contingent upon completion of any content review process, and therefore no formality is imposed.

79. At paragraphs 232-243 of its first written submission, the United States alleges that China fails to provide enforcement procedures in instances when copyright is denied. This claim also fails in light of the arguments presented by China, which show that copyright in fact is not denied as alleged by the United States.

E. THE UNITED STATES HAS FAILED TO PRESENT A PRIMA FACIE CASE TO SUPPORT EITHER ITS NATIONAL TREATMENT CLAIMS OR ITS RELATED RIGHTS CLAIMS, AND THE PANEL SHOULD ACCORDINGLY ENTER A FINDING IN FAVOUR OF CHINA ON THESE MATTERS

80. In its Panel request, the United States alleged a number of national treatment violations, subsidiary to its main allegations that Copyright Law Article 4.1 denies copyright in violation of TRIPS. Similarly, in its Panel request, the United States also alleged, again as a subsidiary matter, that Copyright Law Article 4.1 may deny related rights to performers and phonogram producers in violation of TRIPS Article 14.

81. The United States has failed in its first written submission to make a prima facie case to support either its national treatment claims or its related rights claims. China respectfully submits that in light of this fact, the Panel should rule in favour of China on each of these allegations.

1. The Appellate Body has repeatedly and unambiguously ruled that the initial burden of proof in establishing a prima facie case lies with the complaining party

82. The Appellate Body has been called upon several times to clarify the burden of proof in WTO dispute settlement proceedings. On each of these occasions the Appellate Body has confirmed that the burden of proving that a Member's law is non-compliant with WTO obligations rests wholly with the complaining party. The complaining party must both properly assert and prove its claim. If such proof is absent or deficient, then the respondent has no burden going forward.

2. The United States has failed to meet its burden

83. China submits that the Panel should deny the national treatment and related rights claims raised by the United States.

84. With regard to the alleged TRIPS Article 14 related rights violations, the United States has presented no evidence, and its allegations concerning related rights do not even amount to a properly pled claim. The United States admits as much in its submission.

85. With regard to the national treatment arguments, the US first written submission has neglected to assert any claim whatsoever and thus has seemingly abandoned those claims.

86. Since the United States has failed to establish a prima facie case, China respectfully requests that the Panel rule against the United States, finding that the United States has failed to make a case either that China's measures violate TRIPS Article 14, or that they deny national treatment.

87. Lastly, China respectfully notes that while the United States listed numerous separate measures its Request for Establishment of a Panel, it appears to have attempted to make a case in its first written submission with respect to only five of those measures. China accordingly requests that the Panel find that the United States has failed to assert a prima facie case with respect to the remaining measures, and to rule that the United States as a procedural matter has failed to establish any violation of TRIPS with respect to: Regulations on the Administration of Broadcasting; Regulations on the Administration of Telecommunication; Measures for the Administration of Import of Audio and Video Products; Procedures for Examination and Approval for Publishing Finished Electronic Publication Items Licensed by a Foreign Copyright Owner; Procedures for Examination and Approval of Importation of Finished Electronic Publication Items by Electronic Publication Importation Entities; Procedures for Recording of Imported Publications; Interim Regulations on Internet Culture Administration; and Several Opinions on the Development and Regulation of Network Music.

V. CONCLUSION

88. For the reasons set forth in this submission, China respectfully requests that the Panel find China's measures to be consistent with China's obligations under the TRIPS Agreement. China respectfully submits that the United States has failed to meet its burden of proof with regard to many of China's measures, and has failed to show that any of China's measures are not in compliance with China's obligations.

ANNEX B-2

EXECUTIVE SUMMARY OF THE ORAL STATEMENT OF CHINA AT THE FIRST SUBSTANTIVE MEETING

I. INTRODUCTION

1. Thank you, Mr. Chairman and members of the Panel. The United States has set forth legal theories in this case that are highly flawed and that have little bearing on the intellectual property marketplace. China urges the Panel to reject all the US claims.

2. For China, it is not solely a handful of domestic laws at stake in this dispute – although of course this is extremely important. Beyond that, China believes that the balance of rights and obligations in TRIPS is also very much at stake in this dispute.

3. Developing Members repeatedly and emphatically stated that they would accept the obligations of TRIPS only – and only – with due deference to their norms, to their legal systems, and to their resource constraints. But the United States would simply ignore all of this. Willful blindness to the plain record of objections by the developing Members would ill-serve the WTO community as it seeks to negotiate the Doha round of agreements.

II. CLAIM ONE

4. Mr. Chairman and members of the Panel: please allow me to address the first claim by the United States. This first claim is that China's criminal law does not fulfill TRIPS Article 61. TRIPS Article 61 declares that "Members shall provide for criminal procedures and penalties to be applied at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale."

5. The Panel is being urged to read the broad language "commercial scale" very strictly. China urges the Panel to consider this issue carefully in light of the traditional rules of interpretation, which recognize that countries do not lightly surrender sovereign powers. In particular, China urges the Panel to ask whether the United States has given it sufficient basis to believe that the parties meant "commercial scale" to impose a strict standard of criminal law.

6. In China, economic crimes are defined by establishing a threshold. Illegal activity that exceeds a certain scale is made subject to the criminal sanction. China has set the thresholds for intellectual property crimes at the same level as for similar commercial crimes.

7. Two very distinct aspects of the Chinese system have a bearing on how these thresholds are set. First, in China, private parties have the right to initiate criminal actions. This makes the threshold a very important matter in terms of the conservation of criminal enforcement resources. Second, China employs an administrative enforcement regime in parallel to the criminal system. This is an enforcement regime that does not appear to have a parallel amongst Western countries. Through administrative enforcement, the Chinese authorities can swiftly and effectively target infringement activity of any scale. Low-scale infringers do not have a "safe harbor". They are subject to vigorous administrative punishment. These low-scale infringers simply do not warrant vastly more time-consuming and costly criminal proceedings.

8. The United States reads "commercial scale" to mean commercial intent: any activity undertaken for financial gain. This is a significant misstatement. The negotiating parties explicitly

rejected a commercial intent standard when it was offered in the negotiations. Among the third parties, few agree with the US definition.

9. The US interpretation is not the ordinary meaning of "commercial scale". The United States never really confronts the ordinary meaning of the overall phrase "commercial scale". Instead, the United States tries to add together dictionary meanings of "commercial" and "scale".

10. The WIPO Committee made it clear that "commercial scale" is a broad standard that should be based on multiple factors and local circumstances. It does not delimit a rigid and definite threshold of activity. And "commercial scale" refers to a significant magnitude of activity. It was designed to cover cases where the "manufacture" of infringing goods should be criminal. This directly contradicts the US contention. "Commercial scale" does not mean any activity undertaken for financial gain. "The will to make profit" is only one of several factors to be considered.

11. This is the ordinary meaning of "commercial scale". It refers to a magnitude of activity. It is a broad standard, not precisely defined. It permits each Member's standard to reflect its own legal system and economic reality.

12. This is the same meaning that is found in older GATT documents – and indeed, in US laws. It is the meaning that the TRIPS negotiating parties considered as they debated whether to adopt a "commercial scale" standard and as they rejected the plain "commercial" standard.

13. China notes that the United States and the third parties have put forward widely divergent definitions of "commercial scale". Each party insists that its is the fair reading of the phrase. But the vast range of meanings itself shows that "commercial scale" does not refer to a specific standard. The standard is vague and open to interpretation.

14. The Appellate Body has held that if a term is vague or ambiguous, the Panel should adopt the interpretation that is less onerous and interferes less with a country's sovereignty. Article 61 touches on Members' domestic criminal law – the very core of national sovereignty. Here, more than any other domain, the Appellate Body must not assume lightly that Members intended the more burdensome, more intrusive meaning.

15. China also wishes to emphasize the particular contextual role of Article 1.1 and Article 41.5 of TRIPS. During the Uruguay Round negotiations, developing countries objected strenuously to new enforcement obligations that would prescribe rigid standards and would ignore principles of sovereignty. Developing countries prevailed, over opposition from the United States and others, on the inclusion of both Article 1.1 and Article 41.5.

16. This dispute will represent the first interpretation by the WTO of Articles 1.1 and 41.5 of the TRIPS. The Panel is being urged to read these provisions as having little or no effect. China urges the Panel to consider the policy balance that led to the incorporation of these provisions. China does not seek to avoid its obligations. But China urges the Panel to consider whether the United States has given it reason to find that these provisions simply have little or no meaning.

17. These provisions establish the context of Article 61. TRIPS cannot be read to require a Member to distort its legal system or to focus greater resources on intellectual property enforcement than on general law enforcement.

18. The conclusion should be clear. Article 61 of TRIPS requires that China set forth criminal measures against counterfeiting and piracy of a certain magnitude. It allows China reasonably to define that magnitude within its domestic legal structures and resource constraints. China has done precisely that. China has set forth criminal thresholds for intellectual property at a low scale of

commerce in a manner that is consistent with its thresholds across the range of commercial criminal law.

III. CLAIM TWO

19. Mr. Chairman and members of the Panel, let me now turn to the second claim by the United States. The United States alleges that, under Chinese law, China's Customs agency disposes of seized infringing goods in a manner that is inconsistent with TRIPS Article 59. This claim is also without merit.

20. TRIPS Article 46 and 59 together obligate Members to provide their Customs with authority to dispose of goods outside the channels of commerce in such a manner as to avoid harm to the right-holder, or to destroy the goods.

21. China's Customs has disposal authority in two different ways: by donating infringing goods to social welfare organizations and, alternatively, by entering into the voluntary sale of infringing goods to their right-holders. The United States rests its argument on whether these procedures are conducted in such a manner as to avoid harm to the right-holder.

22. While the United States repeatedly implies possible harms from China's donations to charity, its written submission does not identify so much as a single instance where the donation of an infringing good harmed a right-holder. The evidence before the panel is that Chinese Customs successfully donates infringing goods to social welfare organizations without any harm to the right-holders.

23. In the case of the sale of infringing goods to right-holders – which is far less frequent than donation of goods – the right-holder has an entirely voluntary choice as to whether to purchase the goods if doing so advanced its interests. China respectfully submits that this cannot harm the right-holder, and the United States offers no evidence to the contrary.

24. In regard to the destruction authority, Chinese Customs has the needed authority to destroy infringing goods. Chinese law sets forth a discretionary sequence of disposition methods that is entirely consistent with TRIPS. Chinese law prefers that infringing goods be donated or sold to their right-holders. And if those methods are not available, Chinese law prefers that infringing goods be sold at public auction. And if none of those methods is available, Chinese law provides that infringing goods be destroyed. Chinese Customs are fully vested with the authority to order destruction, and frequently exercise that authority. Indeed, the evidence before the panel makes clear that destruction frequently takes place – by value, 58 per cent of the seized infringing goods in China were destroyed over the most recent three year period.

25. The United States objects to the rare instances where Chinese Customs uses a public auction to dispose of infringing goods. The United States contends that public auction is inconsistent with China's obligation under Article 59 to provide both disposal authority and destruction authority. But this argument clearly fails because, under TRIPS, Chinese Customs must have the authority – but not the obligation – to dispose infringing goods or to destroy them. The text of Article 59 does not say "shall" order destruction or disposal, rather it expressly says "shall have the authority to" so order.

26. The United States also advances that China's limited use of public auctions violates the fourth sentence of Article 46. This sentence states that the simple removal of a counterfeit trademark is not sufficient to release goods back into the channels of commerce, other than in exceptional cases.

27. China questions whether the fourth sentence of Article 46 is incorporated into Article 59 – and therefore whether it applies to Chinese Customs.

28. But even if the fourth sentence of Article 46 were read to apply, Chinese Customs complies fully. The fourth sentence of Article 46 does not bar the release of seized counterfeit goods – it simply provides that the mere removal of the counterfeit mark is not normally sufficient. The purpose of Article 46 is to avoid a circumstance where infringers could cheaply reaffix counterfeit marks and continue their infringement activity. As China explained in its written submission, Customs does not merely remove the counterfeit mark: it removes all the infringing features; it formally solicits comments from the right-holders to provide procedural protection; and, most importantly, Customs uses a reserve price at a public auction to ensure that infringers do not have the opportunity to purchase the seized goods at an unreasonably low cost and reaffix counterfeit marks.

29. In sum, the public auction of seized infringing goods – a procedure that China uses for two percent of the value of such goods – is entirely consistent with Article 59.

IV. CLAIM THREE

30. Mr. Chairman and members of the Panel, I will now address the third claim of the United States. The United States claims that China breaches TRIPS by failing to provide automatic and immediate copyright protection to works, most particularly films and DVDs. On this claim, the point of dispute is not the interpretation of TRIPS. This is largely a dispute about the operation of Chinese law.

31. Under Chinese law, copyright in a work vests upon its creation. Copyright protection is not contingent on publication. Article 2 of China's Copyright Law explicitly incorporates the Berne Convention's protections and extends automatic protection of copyright to all authors from Berne Member states.

32. The United States failed to account for Article 2 in its written submission. Rather, the United States claims that Article 4.1 denies copyright protection to works until those works pass content review. China respectfully points out that this is not correct. China in fact does recognize and protect copyright in works as soon as those works are created.

33. China enforces several regulations that provide for content review of works, and in some cases does not permit publication until content has been approved. The United States does not dispute China's right to do this. Content review, and the right to prohibit the publication or distribution of works, is a sovereign privilege that is recognized by Article 17 of the Berne Convention.

34. As a result of the protections of Article 2, works that have not been submitted for content review still enjoy copyright protection. Works that are pending content review also enjoy copyright protection. For works that have been edited to pass content review, China will protect the copyright in the edited version of the work. This protection will include enforcement against copies of the unedited version of the work, which infringe the copyright in the edited version. The unedited versions also will be subject to enforcement for violation of the regulations governing publication and distribution, such as Film Regulations. For works that have failed content review, the extent of copyright protection in this case is an issue that does not commonly arise under Chinese law.

35. As a consequence, China respectfully submits that Article 4.1 is a legal instrument that has limited marketplace effect. Even in the event that a work is found to be prohibited by law, the denial of copyright protection is unlikely to deny any meaningful value to a copyright holder. The work is entirely prohibited and attempts to publish or distribute the work are subject to legal enforcement. The author's private right to censor what is already entirely banned would have little value.

36. Lastly, China also asks that the Panel note that several aspects of the US claim, as stated in its Panel request, were not briefed or substantiated by the United States in its first written submission.

These are the claims related to TRIPS Article 14 and the claims related to national treatment. Likewise, the United States failed to offer argument with respect to a number of Chinese measures that it referred to in its panel request. The Appellate Body has made clear that the complaining party bears the burden to support all claims by making a prima facie case in its written submission. China respectfully notes that the United States has failed to meet this burden in these instances. China respectfully asks the Panel to rule against the United States on its Article 14 and national treatment claims, and on the measures for which no support was offered.

V. CONCLUSION

37. In conclusion, China respectfully submits that the United States has failed to present a compelling case on any of its three claims. China very much hopes that this dispute will be laid to rest, and that China can return to working with all its trading partners to promote the beneficial protection of intellectual property.

ANNEX B-3

CLOSING ORAL STATEMENT OF CHINA AT THE FIRST SUBSTANTIVE MEETING

1. Mr. Chairman, members of the Panel: China would like to preface its formal closing statement by making a brief point of law regarding the interpretation of Article 61. Yesterday, some third parties expressed concern that China might ask this Panel to depart from the customary rules of interpretation of international agreements in the interpretation of TRIPS Article 61. China is making no such request, and believes that it can allay these concerns with a simple statement of its views.

2. China's point regarding the interpretation of Article 61 is as follows: First, China asks the Panel to recognize that the obligation in Article 61 involves criminal law, which is a core sovereign function. This is the first time that a WTO panel has been asked to interpret an obligation regarding criminal law.

3. Second, China asks the Panel to note that the standard in Article 61 is vague, and subject to interpretation. The wide variety of potential definitions that the Panel has heard in the last two days is striking evidence of this fact.

4. Third, China asks the Panel to note the well-accepted interpretive canon *in dubio mitius*. This canon holds that when a treaty standard is vague or ambiguous the Panel should choose the interpretation that imposes the least imposition on a country's sovereignty. The Panel should choose a more intrusive interpretation only where there is clear and specific evidence that a more intrusive interpretation was meant.

5. The logic behind this canon is that countries should not be assumed lightly to concede sovereignty. The Panel accordingly must find specific support for an interpretation that does involve an intrusive concession of sovereignty. China notes that the WTO Appellate Body expressly has adopted this canon of interpretation.

6. The international criminal law cited in China's first written submission makes clear that this canon has particular justification in the realm of criminal law. The United States has argued for a strict, intrusive application of Article 61. To support such a reading the United States must offer specific evidence that the parties intended that interpretation, as the canon of *in dubio mitius* requires. The United States has not done this, and in light of TRIPS provisions like Article 1.1 and 41.5, it is clear that the United States will be unable to do so.

7. This is the "burden" that China has described as resting on the United States. China is not referring to a factual burden of proof, but rather to the inability of the United States to provide the evidence to support its legal interpretation of Article 61.

8. China hopes that this puts to rest any possible misunderstanding of its argument on this point.

* * *

9. Mr. Chairman, members of the Panel: The People's Republic of China wishes to express its deep gratitude for your willingness to serve in this dispute and for the evident diligence with which you have approached your task. China also wishes very much to thank the WTO Secretariat Staff.

10. China takes this dispute very seriously. It has brought to Geneva a sizeable and senior delegation of officials; and it has prepared thoroughly for this meeting. China intends to devote considerable attention and energy to addressing the Panel's questions.

11. For China, it is not solely a handful of domestic laws at stake in this dispute – although of course this is extremely important. Beyond that, China believes that the balance of rights and obligations in TRIPS is also very much at stake in this dispute.

12. China considers that the Panel faces several very important tasks, including tasks for which there are few precedents.

13. One task is the first interpretation by the WTO of an obligation involving criminal law. The Panel is being urged to read the broad language "commercial scale" very strictly. China urges the Panel to consider this issue carefully in light of the traditional rules of interpretation, which recognize that countries do not lightly surrender sovereign powers. In particular, China urges the Panel to ask whether the United States has given it sufficient basis to believe that the parties meant "commercial scale" to impose a strict standard of criminal law.

14. Another task is the first interpretation by the WTO of Articles 1.1 and 41.5 of the TRIPS. The Panel is being urged to read these provisions as having little or no effect. China urges the Panel to consider the policy balance that led to the incorporation of these provisions. China does not seek to avoid its obligations. But China urges the Panel to consider whether the United States has given it reason to find that these provisions simply have little or no meaning.

15. Another task is to determine whether Article 46 of the TRIPS is drafted so as to require Members to afford their customs agencies unfettered authority to destroy infringing goods before they can be donated, without any harm to a right holder, to a charity. China continues to be perplexed by the US position. On the one hand, the United States appears to believe that Chinese Customs ought to have absolute and unconstrained authority on matters of destruction. On the other hand, the United States criticizes Chinese Customs as insufficiently constrained on matters of disposal outside the channels of commerce.

16. The United States desires that China condition donation to charity on, for example, the determination that the goods are not defective. China in fact provides such a condition by law. But the Panel no doubt recognizes that the condition that goods only be donated if they are non-defective is a constraint on Customs authority. It is a constraint in exactly the same way that the condition that goods only be destroyed if they fail to meet certain criteria. Similarly, the United States provides in its own law – and commends to China – that donation of seized goods be conditioned on the approval of the right-holder. The United States gives the appearance of approving the conditions for authority that it likes and rejecting the conditions for authority that it does not.

17. A final task for the Panel is to assess Chinese copyright law in light of the Berne Convention and the TRIPS. Here there are two very important issues that the Panel should consider. First is the protection of copyright provided by Article 2 of China's copyright law. This provision incorporates into Chinese law the protections of Article 5 of the Berne Convention. Proper consideration of Article 2 will resolve most of the dispute over Chinese law. Second, the Panel should consider carefully the right to prohibit publication that is recognized by Article 17 of the Berne Convention. The Panel should ask whether there is any logic to require protection of copyright where a work has been completely prohibited by government action that is authorized by international law.

18. Mr. Chairman, members of the Panel: this concludes our statement. China thanks you again and looks forward to responding to your questions in writing.

ANNEX B–4

EXECUTIVE SUMMARY OF THE REBUTTAL SUBMISSION OF CHINA

I. INTRODUCTION

1. In this dispute, the United States has asked this Panel to dramatically expand the scope of legal obligations under TRIPS, creating obligations to which the drafters never agreed and encroaching on areas of sovereignty which Members never ceded. This submission demonstrates the proper interpretation of TRIPS in accordance with the rules for interpretation under the Vienna Convention.

2. At the same time, the United States has consistently mischaracterized China's legal regime. In many cases, the United States has failed to make a *prima facie* case that China's laws are inconsistent with TRIPS.

3. In its Claim One, the United States has failed to recognize the scope of China's criminal enforcement against intellectual property infringement; and it has failed to demonstrate that TRIPS Article 61 imposes on Members an obligation to apply criminal measures to low-level infringement. In fact, China's criminal law regime, properly understood, fully complies with TRIPS Article 61, properly understood.

4. In its Claim Two, the United States has failed to demonstrate that China's legal framework for Customs' disposal of seized goods is inconsistent with TRIPS Arts. 46 and 59. Chinese Customs has the power to dispose of seized goods outside the channels of commerce in such a way as to avoid harm to the right-holder; and it has the appropriate authority to destroy seized goods, recognizing that authority was never envisioned in TRIPS to be absolute and unconditional. Chinese Customs also meets the obligation of the 4th sentence of Article 46 – if indeed it applies to Article 59 at all – by taking substantial steps to ensure that infringers cannot cheaply recover their infringing goods.

5. In its Claim Three, the United States has failed to present a prima facie case that Article 4.1 of China's Copyright Law does not protect the copyrights of works at various stages of content review. The United States has only the flawed argument that Article 4.1 violates TRIPS on its face, but this argument fails: international law, and in particular Article 17 of the Berne Convention, clearly recognizes the sovereign power to prohibit works.

II. CLAIM ONE: CHINA'S CRIMINAL THRESHOLDS ARE CONSISTENT WITH CHINA'S OBLIGATIONS UNDER TRIPS

6. The United States claims that China breaches TRIPS Article 61 by failing to apply criminal procedures and penalties to willful counterfeiting and infringement on a commercial scale. The United States fails to understand China's criminal law regime; it fails to properly interpret the legal obligation set forth by TRIPS Article 61; and, consequently, it fails to recognize that China's criminal law regime has faithfully implemented the incumbent Article 61 obligation.

7. Throughout these proceedings, the United States has demonstrated a limited understanding of China's legal system. China identified a series of US errors in China's first written submission. While the United States appears to have corrected certain errors that it had earlier made – such as the scope of the illegal business volume threshold or the alternative nature of criminal thresholds – it has

repeated certain errors and introduced new ones. Certain third parties also have mischaracterized Chinese law.

A. CHINA'S INTELLECTUAL PROPERTY ENFORCEMENT REGIME

8. China addresses a series of US mischaracterizations of Chinese law with respect to its intellectual property regime, including elements of its substantive criminal law, general (derivative) criminal law and administrative law.

1. Chinese criminal law sets forth flexible and wide-ranging thresholds for criminal prosecution

(a) China's substantive criminal laws regarding Intellectual Property

9. China presents a detailed description of its criminal laws governing intellectual property. The United States and other parties have routinely mischaracterized Chinese substantive criminal law.

10. First, China's criminal thresholds are not rigid, but cover a wide range of activity. Chinese criminal law employs alternative thresholds, which serve to capture different metrics. The illegal business operation volume threshold, in particular, is a flexible standard that potentially captures both a small number of high-value products and a large number of low-value products – just as certain third parties request. Moreover, Chinese criminal law has adapted to new technology, such as by deeming internet dissemination to constitute reproduction or distribution under Article 217 of the Criminal Law.

11. Second, China calculates its criminal thresholds by considering evidence over the entire duration of the infringing act, which might last several years. Most of the hypothetical examples used by the United States and third parties improperly condense the period of infringement. There is scarcely an example that the United States has offered in these proceedings that does not depend on ignoring the appropriate period of infringement. Relatedly, China registers its surprise that the United States would complain that the application of administrative penalties wipe the slate clean – since the only alternative for China would be to forego administrative enforcement against low-scale infringement.

12. Third, Chinese criminal law considers unfinished products and reliable indicia of criminal infringement. China further explains two cases previously provided, which demonstrate that courts took notice of semi-finished or unfinished components and also materials and implements indicative of infringement.

(b) China's General (Derivative) Criminal Laws regarding Intellectual Property

13. The United States and other parties to this dispute have disregarded China's general criminal laws, which might be characterized in western common law as "derivative" criminal laws. These laws include inchoate crimes, such as preparation and attempt, and vicarious liability crimes, such as joint crimes and criminal group activity.

14. These general criminal laws apply to the specific section on intellectual property crimes and expand the scope of China's criminal measures against counterfeiting and piracy. These general criminal laws take into account unfinished products, non-quantitative factors and organizational elements.

2. The Administrative Regime addresses low-scale (non-commercial scale) infringement

15. China describes the administrative enforcement procedures that apply against intellectual property infringement that falls beneath the criminal thresholds. These procedures are quick, efficient and well-suited to a high volume of low-scale infringement cases. China takes vigorous measures to ensure that infringers beneath the criminal thresholds in no way have "safe harbor," and that administrative enforcement leads to significant penalties for infringers.

16. China disputes the contention that administrative enforcement is not an effective deterrent. Administrative enforcement may impose somewhat less severe punishment, but it is far more likely to be applied to low-scale intellectual property infringement than the comparable criminal laws in the United States. Contrary to US assertions, China considers administrative enforcement an effective remedy, not its "preferred remedy".

B. LEGAL STANDARD FOR INTERPRETATION OF COMMERCIAL SCALE STANDARD

17. China respectfully submits that the Panel should apply the Article 61 "commercial scale" standard in light of the well-accepted interpretive canon *in dubio mitius*. The WTO Appellate Body has expressly adopted this canon, which has particular justification in the realm of criminal law.

18. The United States has argued for a strict and intrusive application of TRIPS Article 61. To support such a reading, the United States must show that the "commercial scale" standard in Article 61 clearly and precisely has the meaning that the United States attributes to it. To the extent that "commercial scale" is somewhat unclear or vague, the canon of *in dubio mitius* holds that the US interpretation cannot prevail. Article 61 must be read to regulate Members' domestic criminal laws only to the limit that Members expressly and unequivocally consented. It is the responsibility of the United States to show that Members expressly and unequivocally consented to accept the legal obligation of applying criminal measures to counterfeiting and piracy of a low scale. The United States has not fulfilled this responsibility.

C. THE TRIPS ARTICLE 61 OBLIGATION

19. The foremost task before the Panel in the dispute over TRIPS Article 61 is to determine the meaning of "commercial scale". Contrary to the statements of the United States, China has strictly followed the rules of the Vienna Convention on the Law of Treaties in explaining the meaning of "commercial scale".

1. Ordinary meaning of "commercial scale"

20. The United States has failed to set forth a reasonable and supportable ordinary meaning of "commercial scale". Its contention that commercial scale covers any activity undertaken for financial gain does not withstand scrutiny. The United States has also failed to effectively rebut China's contention that "commercial scale" is a broad standard that refers to a significant magnitude of activity.

(a) The United States fails to set forth a reasonable definition of "commercial scale"

21. The United States sets forth inconsistent definitions of the term "commercial scale". In its previous submissions, the United States set forth a definition of "commercial scale" that includes any activity undertaken for financial gain. However, it has also made statements inconsistent with that definition, contending that what constitutes a commercial scale action can vary from situation to situation according to a number of factors.

22. The definition of "commercial scale" adopted by the United States also serves to read the word "scale" out of the term, rendering the term synonymous with "commercial purpose" or "commercial". This definition results in a rewriting of the text of Article 61 with terms that were explicitly distinguished and rejected in WIPO and TRIPS discussions.

23. Contrary to US assertions, dictionary definitions of individual words of a combined term do not conclusively define the "ordinary meaning" under Article 31.1 of the Vienna Conventions, nor is the absence of a dictionary definition of the combined term determinative. The essential test of ordinary meaning is how words are commonly used. China has provided multiple examples of "commercial scale" being used to refer to a significant magnitude of activity, while the United States has not furnished a single example of the use it proposes.

24. The Panel should further note the wide variety of definitions advanced for "commercial scale" during these proceedings. This variance highlights that the phrase was intended to be a flexible one, susceptible to different interpretations, and underscores the salience and importance of the statutory canon of *in dubio mitius*. In the face of these conflicting interpretations, and the apparent underlying ambiguity or vagueness, "commercial scale" should be read conservatively and so as to intrude minimally on Members' sovereignty.

(b) The ordinary meaning of "commercial scale" is – broadly – significant magnitude of activity

25. China submits that the essential test of the meaning of "commercial scale" should be how the term is actually used, and sets forth a definition of "commercial scale" that is consistent with all available evidence. Examples presented by China demonstrate that governments have tended to understand "commercial scale" to refer to a significant magnitude of activity – <u>not</u> low-scale economic activity.

26. China presents a clarification of the legal status of the definition of "commercial scale" set forth by the Word Intellectual Property Organization Committee of Experts on Measures Against Counterfeiting and Piracy ("WIPO Committee"). The WIPO Committee definition is not merely part of the negotiating record under Article 32 of the Vienna Convention; it is not a "special meaning" under Article 31.4 of that Convention; and it is not a formal part of TRIPS. Rather, the WIPO Committee definition is a noteworthy example of the common usage of the phrase, which reveals its "<u>ordinary meaning</u>" of the treaty under Article 31.1 of the Vienna Convention.

27. The WIPO Committee's Model Provisions for National Laws contradicts the US assertion that any act undertaken for financial gain constitutes commercial scale: it states that the "will to make profit" is only one of several factors. The WIPO Committee sets forth a definition that is flexible, where the United States apparently seeks to impose a specific standard. The WIPO Committee definition also contradicts the US contention that "commercial scale" covers even very small-scale activity.

28. The United States accuses China of replacing "commercial scale" with "industrial scale" and argues that had the drafters of TRIPS wished for TRIPS Article 61 to apply only to industrial scale activity, they would have used that phrase. However, the US mischaracterizes China in two respects: China does <u>not</u> believe that "commercial scale" sets out as high a standard as "industrial scale," and has never described the phrase in those terms; and China submits that "commercial scale" is a substantially broader standard than "industrial scale," and was likely chosen quite specifically because it has this character.

(c) Clarification of the "commercial scale" standard: the impact of infringement, the price of the infringed good and the role of technology are not proper considerations

29. China further clarifies three particular elements of the "commercial scale" standard. First, the plain text of TRIPS Article 61 refers to "commercial scale" as a measure of infringing activity, not the impact of the infringement. Consequently, to read "commercial scale" as measuring the impact of the infringement on the right-holder would abuse the text of TRIPS.

30. Second, the United States has not justified its premise that the impact of the infringing act on the right-holder ought to be considered in measuring "commercial scale" activity. In so far as "commercial scale" in Article 61 properly measures the infringing activity, it is eminently sensible for Members to use the infringing price – which measures the value of the infringing activity – in determining the "commercial scale" threshold.

31. Third, although several parties have suggested that the definition of "commercial scale" under Article 61 should change to reflect changes in technology, China does not believe that any change to the legal obligation expressed by Article 61 is either appropriate or necessary. Significant changes ought to be addressed in the context of new international agreements. Moreover, new developments in technology have not, in fact, undermined the commercial scale threshold. As technology has improved, a much higher proportion of infringing activity has become subject to criminal measures.

2. The legally relevant context of TRIPS Article 61 underscores that "commercial scale" is a broad and flexible standard

32. According to Article 31.1 of the Vienna Convention, a treaty must be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose. China sets forth several contextual factors that undermine the US contention that Article 61 imposes a highly specific obligation on Members.

33. First, contrary to US assertions, China does not invoke TRIPS Articles 1.1 and 41.5 as a defense against the obligation imposed in Article 61. Instead, China has consistently highlighted Articles 1.1 and 41.5 as relevant context for Article 61 in determining the scope of its substantive obligation. Articles 1.1 and 41.5 were key concessions to the developing world, which the United States and other developed third parties seek now to dismiss and disregard. These Articles strongly counsel against interpreting Article 61 as imposing the obligation to apply criminal measures against any act undertaken for financial gain, as this standard would be inconsistent with China's legal system and would require the diversion of enforcement resources.

34. Second, one of the third parties argues that the 2nd, 3rd and 4th sentences of Article 61 use flexible language, whereas the 1st sentence contains a hard-and-fast rule obliging WTO Members to provide criminal enforcement against willful counterfeiting and infringement, implying that the 1st sentence allows no flexibility. This argument fails because Article 61 does not set forth a "hard-and-fast rule" as to the scope of "commercial scale". Further, the 2nd sentence provides flexibility in determining the choice of punishment. If the 1st sentence were read to require a Member to apply criminal measures to low-level infringement, the acknowledged flexibility of the 2nd sentence – which would suggest that in some criminal law systems a low level crime need not be subject to any punishment – would create a conundrum. The 2nd sentence of Article 61 thus is indeed relevant context: its very flexibility demonstrates the error of interpreting Article 61 to impose an exacting and specific standard.

35. Third, China presents further contextual factors that warrant consideration in any examination of the meaning of "commercial scale". Neither TRIPS nor the Berne Convention sets forth complete definitions of "trademark counterfeiting" or "copyright piracy". In addition, the broad and vague

phrasing of TRIPS Article 61 stands in stark contrast to the highly detailed provisions set forth in TRIPS Articles 42-49, as well as in relevant parts of the AD Agreement and ASCM. When the drafters of WTO instruments intended to set forth precise standards, they did so unambiguously. The lack of such clarity in Article 61 suggests that there was no such intent. These examples counsel against interpreting "commercial scale" to set forth a rigid and precise standard, yet the United States has yet to address either of these factors.

3. The object and purpose of TRIPS confirms that "commercial scale" is a broad and flexible standard

36. Article 31.1 of the Vienna Convention provides that in addition to the context, the "object and purpose" of the treaty should be considered in determining the meaning of the treaty. The purpose of TRIPS was to balance the protection of intellectual property rights with deference to Members' legal systems and public policy objectives. This balance – between effective intellectual property enforcement and deference to Members – is consistent with interpreting "commercial scale" in Article 61 to set forth a broad and flexible standard.

4. The subsequent practice of Members of TRIPS demonstrates that commercial scale is a broad standard that refers to a sgnificant magnitude of activity

37. Article 31.3 of the Vienna Convention provides that parties should take into account any subsequent practice in the application of the treaty which establishes the agreement of the parties regarding its interpretation. The subsequent practice of Members of TRIPS provides further confirmation that "commercial scale" was never generally understood to refer to any activity undertaken for financial gain.

38. First, US practice in implementing its TRIPS Article 61 obligation demonstrates that it has implicitly understood "commercial scale" to refer to significant magnitude, as is evidenced by a US Department of Justice manual and from US intellectual property prosecutions. Article 61 requires that Members "shall provide for criminal procedures and penalties to be applied." A review of a sample of US federal prosecutions demonstrates that in all of the 60 cases featuring copyright piracy for which there is information as to the value of the goods, US authorities applied criminal procedures to acts associated with at least $2,000 of infringement. Given that the US practice is to apply its IPR criminal laws against large-scale counterfeiting and piracy, US practice demonstrates that infringement "on a commercial scale" is large-scale infringement.

39. Second, Canada has explicitly defined the "commercial scale" standard to refer to large-scale infringement. Notwithstanding its weak protests to the contrary, Canada's practice, pursuant to its Copyright Enforcement Policy, has been to only apply criminal measures to large-scale offences.

40. Third, the United States has yet to address China's argument that in a series of free trade agreements (FTAs) subsequent to TRIPS, the United States has included an explicit definition of "commercial scale" as "wilful infringements for the purpose of commercial advantage or gain," a significant departure from the standard of "commercial scale".

5. The negotiating record of TRIPS confirms that "commercial scale" was intended to set forth a broad standard referring to a significant magnitude of activity

41. Article 32 of the Vienna Convention provides that supplementary means of interpretation may be utilized to confirm the meaning resulting from the application of Article 31. This may include the preparatory work of the treaty and the circumstances of its conclusion. The negotiating record is appropriate to confirm the meaning resulting from the application of Article 31, yet the United States has yet to address it.

42. The WIPO Committee definition of "commercial scale" was the basis for the ultimate phrase in TRIPS Article 61. Delegations to the WIPO plenary session explicitly distinguished "commercial scale" from "for commercial purpose" and "for commercial gain." The TRIPS negotiating parties rejected efforts by both the United States and Canada to replace "commercial scale" with "commercial". Thus they clearly understood the terms to have different meanings, and the negotiating parties clearly did not embrace the meaning of "commercial".

D. CHINA HAS FULLY IMPLEMENTED ITS TRIPS ARTICLE 61 OBLIGATION

43. China has met its obligation under Article 61 by setting forth criminal measures against "commercial scale" infringement. Notwithstanding the United States' arguments to the contrary, China has done so in a manner that is appropriate within its legal and commercial context.

1. China has implemented Article 61 in China's legal and commercial context

44. The Panel must first consider whether China's IPR criminal thresholds are appropriate within the structure of Chinese law. China sets forth criminal thresholds for intellectual property infringement parallel to those for other illicit activities. Members have the legal right to implement, as far as possible, their Article 61 obligation within their own legal systems and practice (Article 1.1), and in such a way as to avoid diverting general law enforcement resources (Article 41.5). Moreover, the 2nd sentence of Article 61 directs Members to apply criminal punishment that is comparable to that for other crimes. Thus contrary to US assertions, how China's IPR criminal laws fit within the broader structure of China's legal structure is critical to determine whether China implements the "commercial scale" standard in good faith.

45. The second question is whether China's thresholds are appropriate within the context of Chinese commerce. China's 50,000 RMB (US$6,900) threshold for illegal business volume is less than one per cent of the annual revenue of industrial enterprises that are officially "small size" and less than 25 per cent of the annual revenue of the individual or household business operation (the smallest economic unit that China tracks). China has set forth criminal thresholds that capture intellectual property infringement of any reasonable scale. In addition, the per capita income measure proposed by the United States is an inappropriate metric of commercial scale activity. "Commercial scale" is a not a measure of how much individuals earn – it is a measure of business activity. Per capita GDP is not a measure related to commercial activity, much less "commercial scale" activity.

2. Article 61 does not require that Members' authorities be given highly discretionary Standards to enforce

46. The phrase "commercial scale" is a broad and flexible standard; and the WIPO Committee definition of the phrase suggested that a variety of factors might be considered in applying it. This does not mean that Members have an obligation under TRIPS to implement a highly discretionary standard, but simply that Members have flexibility in implementing it.

47. The WIPO Committee definition of "commercial scale" is a preeminent example of the common usage of the phrase and it was relied upon by the negotiating parties to TRIPS. However, the WIPO Committee definition is not a formal part of TRIPS. Therefore, the Panel should reject any exhortations to incorporate the WIPO Committee definition into TRIPS.

48. Under TRIPS Article 1.1, Members have the right to implement obligations in accordance with their own legal system and practice. Acting within their sovereign discretion and in accordance with their legal system, Members may have legitimate interests in the uniform regulation of illicit activity across markets, products, operators and regions. Members' legal systems may also be incompatible with foreign notions of judicial discretion. Thus while the concept of "commercial

scale" would permit highly discretionary standards, TRIPS does not require it, but instead counsels in favor of standards that are consistent with Members' reasonable discretion and in accordance with their legal system and practice.

3. Hypothetical examples do not show that China has failed to implement TRIPS Article 61

49. The United States and several other parties have advanced a bewildering array of hypothetical examples in an attempt to show that China does not comply with TRIPS Article 61. These hypothetical examples prove no such thing. The United States, as the complaining party, must provide evidence that Chinese laws actually function to exclude a category of infringement that meets the "commercial scale" standard. Hypothetical examples do not qualify as sufficient evidence. Moreover, the hypothetical examples that have been advanced during these proceedings are deeply flawed and mischaracterize Chinese law.

III. CLAIM TWO: CHINA'S MEASURES FOR THE DISPOSITION OF SEIZED GOODS ARE CONSISTENT WITH CHINA'S OBLIGATIONS UNDER TRIPS

50. The United States has failed to demonstrate that Chinese Customs' legal framework for handling seized goods is inconsistent with TRIPS. The United States has failed to show that Chinese Customs lacks the proper authority to dispose infringing goods outside the channels of commerce in such a manner as to avoid harm to the right-holder; or that Chinese Customs lacks an appropriate level of destruction authority under TRIPS. The United States has also failed to show that Chinese Customs' use of public auction – undertaken in conjunction with removing all infringing features and using a reserve price so as to prevent any economic benefit to the infringer – is inconsistent with the 4th sentence of Article 46. China has implemented its TRIPS obligations regarding seized goods fully and in good faith.

A. CHINA COMPLIES FULLY WITH THE 1ST SENTENCE OF ARTICLE 46 AS APPLIED TO CHINESE CUSTOMS BY ARTICLE 59

51. The 1st sentence of Article 46, as incorporated by Article 59, imposes two obligations on Members. First, they must vest their customs agencies with the authority to dispose infringing goods outside the channels of commerce in such a manner as to avoid harm to the right-holder. Second, Members must vest their customs agency with the authority to destroy infringing goods. China has fulfilled the first obligation by granting its Customs appropriate authority to donate seized infringing goods to social welfare organizations or to enter into a voluntary sales transaction with the right-holder that wishes to purchase the goods. It has fulfilled the second obligation by endowing its Customs with appropriate authority to destroy infringing goods. Having fully satisfied these two obligations, China is not barred under TRIPS from permitting its Customs to employ additional forms of disposition.

1. The United States has failed to establish that customs lacks disposal authority

52. The United States has failed to show that Chinese Customs lacks the authority to dispose of infringing goods outside the channels of commerce in such a way as to avoid harm to the right-holder. As long as Customs has available to it an option that does avoid harm to the right-holder, it has the genuine authority to dispose of infringing goods outside the channels of commerce in such a manner as to avoid harm to the right-holder, consistent with TRIPS.

(a) Donation to social welfare organizations reflects TRIPS disposal authority

53. Chinese Customs has the authority to donate seized goods to the Red Cross Society of China ("Red Cross") as well as to other social welfare organizations in such a manner as to avoid harm to the

right-holder. Customs may only donate goods that are appropriate for social welfare purposes (no luxury or defective goods); and Customs has a legal responsibility to ensure that the donated goods are properly and exclusively used by social welfare organizations. Chinese law stipulates that donations to other social welfare organizations must remain outside the channels of commerce. The United States has provided the Panel with no evidence of harm to the right-holders from Customs' regime of donations to the Red Cross and other charities.

54. Under Chinese law, social welfare organizations are not allowed to sell the infringing goods donated by Customs. Therefore, Customs' donation of all such goods avoids harm to the right-holder.

55. Moreover, the legally binding memorandum between Customs and the Red Cross ensures that donated goods are used exclusively for social welfare purposes. Customs clearly has the power to order the donation of infringing goods to the Red Cross, and, thus, by definition, authority to order that these goods be disposed outside the channels of commerce in such a manner as to avoid harm to the right-holder.

(b) Transfer to the right-holders reflects TRIPS disposal authority

56. Chinese Customs also has the authority to sell seized goods to an interested right-holder. This disposition method plainly avoids any harm to the right-holder because the right-holder would not voluntarily purchase the goods unless it benefited from the transaction.

2. The United States has not established that customs lacks destruction authority

57. The United States has also failed to show that Chinese Customs lacks the authority to order the destruction of infringing goods. China has vested Customs with appropriate destruction authority within the meaning of TRIPS Arts. 46 and 59.

(a) TRIPS does not require absolute authority

58. The United States asserts that the "authority" required under TRIPS must be absolute and unconditional. This assertion is contrary to the practice of the United States and other Members, to the arguments that the United States has advanced elsewhere in these proceedings, and to a wide variety of legitimate government regulations. The US claim – that China may not condition in any manner whatsoever the destruction authority it vests in its Customs – is untenable in light of any reasonable interpretation of TRIPS.

(b) The destruction authority vested in Chinese customs is an appropriate grant of authority under TRIPS

59. All the evidence before the Panel suggests that "authority" under TRIPS Arts. 46 and 59 may be appropriately conditioned. The United States has not advanced any argument to date as to why Chinese Customs' destruction authority is not appropriate under TRIPS. China offers four factors to help inform the relevant analysis.

(i) Discretion

60. Customs has considerable discretion to make the subjective determination of <u>whether</u> an infringing good meets the criteria for each disposition method and therefore, whether it ought to be destroyed. Once Customs determines that an infringing good meets the criteria for a disposition method, it has a legal obligation to carry out that disposition process.

(ii) Autonomy

61. Customs has complete autonomy in making the determinations relevant to whether an infringing good ought to be destroyed. Its decisions are not subject to the approval of some third party, which might effectively constrain the agency's power.

(iii) Legitimate Government Interests

62. Each of the particular priorities have legitimate government interests consistent with China's sovereign discretion afforded by TRIPS Article 1.1, such as preferring that goods be put to socially useful purposes through donation to charitable organizations.

(iv) The Principles of TRIPS Articles 46 and 59

63. All four disposition methods employed by Customs are consistent with the principles of TRIPS Articles 46 and 59 because they effectively deter infringement and avoid harm to the right-holder.

3. TRIPS allows Members to publicly auction formerly infringing goods in addition to disposal and destruction

64. China has satisfied its obligation under the 1st sentence of Article 46 as incorporated into Article 59 to vest Customs with appropriate disposal authority and destruction authority. Members have every right under TRIPS to allow their customs agencies disposition options other than disposal outside the channels of commerce and destruction.

(a) The United States now concedes that public auction is compatible with the 1st sentence of Article 46

65. Members clearly have the legal right under TRIPS to allow their customs agencies to conduct public auctions. If a Member provides disposal and destruction authority, then it may also allow public auction, consistent with the 1st sentence of Article 46. The United States has now conceded this point.

(b) Public auction is consistent with the principles of the 1st sentence of Article 46

66. The public auction procedure which China's Customs employs is fully consistent with the principles of Article 46. First, public auction is no less a deterrent to infringement than donation or destruction; Customs' use of a reserve price at the auction ensures that infringers lack the opportunity to cheaply reclaim the seized goods and use them in furtherance of any counterfeiting activity. Second, public auction of seized goods is no more harmful to the right-holder than donation or destruction. Customs only undertakes public auction of seized goods once it has removed all infringing features to prevent damage to the right-holder.

B. CHINA COMPLIES FULLY WITH ALL OBLIGATIONS IN THE 4TH SENTENCE OF ARTICLE 46 AS APPLIED BY ARTICLE 59 – AND THE UNITED STATES HAS NOT OFFERED ANY CONTRARY EVIDENCE

67. China is in full compliance with Article 59. The United States has failed to show that the 4th sentence of Article 46 is incorporated into Article 59 and therefore applies to Chinese Customs. Even if the 4th sentence of Article 46 were read to apply, Chinese Customs measures fulfill that provision.

1. The 4th sentence of Article 46 is not incorporated into Article 59

68. The United States wrongly asserts that the 4th sentence of Article 46 is incorporated into Article 59. The relevant principles of Article 46 – which are incorporated into Article 59 – are those related to the authority to order disposal or destruction. The 4th sentence of Article 46 does not provide any authority to dispose or destroy; and it does not elaborate on the requirement of authority. Rather, it sets forth the circumstances under which domestic authorities may discharge infringing goods within the channels of commerce.

2. China complies fully with the 4th sentence of Article 46

69. Even if the 4th sentence of Article 46 were read to be incorporated into Article 59, China would be in full compliance. Chinese Customs complies with the 4th sentence of Article 46 because it takes steps beyond the mere removal of the infringing mark to prevent the cheap return of the seized goods to the infringers. The US reading of the 4th sentence is inconsistent with the plain text.

(a) The 4th sentence of Article 46 bars the cheap return of seized goods to infringers that would allow them to unfairly profit

70. The United States wrongly argues that the 4th sentence of Article 46 imposes a categorical bar on the discharge of seized counterfeit goods into the channels of commerce, other than in "exceptional circumstances". If authorities take measures that exceed the mere removal of the infringing mark and that thereby prevent infringers from cheaply reclaiming the seized goods, then authorities may discharge such goods into the channels of commerce.

71. First, the 4th Sentence of Article 46 does not limit the discharge of seized counterfeit goods to "exceptional cases". The United States misreads the plain text of the 4th sentence of Article 46 to limit the discharge of seized counterfeit goods to exceptional cases only. The 4th sentence does not impose a ban, but rather a threshold, that, when met by measures exceeding the "simple removal of the trademark unlawfully affixed," permit the discharge of the goods into the channels of commerce.

72. Second, the central focus and plain meaning of the 4th sentence of Article 46, especially the term "release," is not the public sale of the seized good, but the return of the good to the infringer, from whom it might continue, once more, into the channels of commerce.

73. Likewise the "exceptional cases" exemption to the 4th sentence of Article 46 – and the restriction on the release of seized goods – refers to returning the seized goods to the infringer. If this exception pertains exclusively to the return of the seized goods to the infringers, then so does the scope of the restriction itself.

74. Third, the 4th sentence of Article 46 is intended to prevent infringers from cheaply reclaiming seized goods, with only the marks removed. The negotiating record underscores that the purpose of the fourth sentence of Article 46 is to ensure that authorities deprive infringers of economic benefits from the goods, not to bar the return of seized goods to the channels of commerce.

(b) Chinese customs satisfies the 4th sentence of Article 46

75. Chinese Customs complies with any obligation of the 4th sentence of Article 46 because prior to public auction, it takes measures that exceed the mere removal of the infringing mark and that thereby prevent infringers from cheaply reclaiming the seized goods: it eliminates all infringing features and not just the infringing trademark; it formally solicits comments from the right-holder; and, most significantly, it establishes a reserve price, based on an expert appraisal, for the public

auction of the seized goods. Such measures clearly meet the sufficiency threshold under the 4th sentence of Article 46 for permitting discharge into the channels of commerce through public auction.

IV. CLAIM THREE: CHINA'S MEASURES FOR THE PROTECTION AND ENFORCEMENT OF COPYRIGHT AND RELATED RIGHTS ARE CONSISTENT WITH CHINA'S OBLIGATIONS UNDER TRIPS

76. In its Claim Three, the core contention of the United States all along has been that, as a consequence of Article 4.1 of China's Copyright Law, China fails to protect the copyrights of works that are at various stages of content review. In fact, as China has demonstrated, the US attempt to link Article 4.1 with China's content review processes is fatally flawed.

77. China notes that the United States now appears to be advancing an argument that Article 4.1 on its face is a violation of TRIPS. This is also a flawed contention. China has demonstrated that the sovereign power to prohibit works, recognized in Article 17 of the Berne Convention, in fact does permit TRIPS Members to maintain a provision of law such as Article 4.1. China also notes that the United States has failed to demonstrate that Article 4.1 has any adverse effect whatsoever on copyright protection in China.

A. THE UNITED STATES HAS FAILED TO MAKE A PRIMA FACIE CASE WITH RESPECT TO VIRTUALLY ALL OF THE LEGAL THEORIES IT ADVANCED IN CLAIM THREE

78. For the amalgam of US theories relating to content review (collectively referred to in this section as the US "Content Review Theories"), the United States has given the Panel no supporting evidence. In contrast, the Panel received from China significant evidence to the contrary of the US theories. As a result, the Panel now has before it a situation where the United States has made allegations for which it has advanced no supporting evidence. Under the rules of the WTO, the United States has failed to make a prima facie case.

1. WTO Law requires a ruling against a complaining party that fails to establish a prima facie case

79. The United States has brought an "as such" challenge to China's Article 4.1. The Appellate Body has stated that it will "expect" that measures subject to "as such" challenges will "normally have undergone, under municipal law, thorough scrutiny ... to ensure consistency with the Member's international obligations" and there will be both presumption and strong expectation that a measure is "not inconsistent with those obligations."

2. The United States Content Review Theories assume that copyright protection is contingent upon content review, but the United States has offered no evidence to support such a claim

80. The United States mistakenly alleged in its first written submission that China will not protect copyright in (1) works that are awaiting the results of content review, (2) the unedited version of a work that has been edited to pass content review, (3) works that have failed content review, and (4) works that have never been submitted for review.

81. The United States, in asserting its Content Review Theories, has the clear and particular factual burden of proving that China's Article 4.1 operates through the prepublication licensing system.

82. At no point does the United States cite a single authority for this proposition. The United States apparently supposes that the point is evident from the text. But the text of Article 4.1 says

nothing about content review, and the content review regulations say nothing about copyright. The US Content Review Theories in fact are not supported in any way by the face of the text.

3. The US claim that China denies copyright protection to works that are not yet licensed for distribution within China is demonstrably false: The United States has failed to establish a prima facie case supporting its claim

83. China does not have an obligation to prove that its law is WTO-compliant. That burden is borne by the United States. A burden in rebuttal does not shift to the responding party unless the complaining party makes a sufficient prima facie case. Nonetheless, China has provided the Panel and the United States with comprehensive factual evidence and legal analysis demonstrating the operation of its laws.

(a) China has provided comprehensive legal analysis, with supporting evidence, to demonstrate that copyright protection is not contingent upon content review

84. The process of content review remains, as an administrative matter, separate from copyright. As explained by China in detail in its first written submissionand in its response to the Panel's questions, content review is conducted by a number of agencies under the authority of the State Council. The agencies under the State Council responsible for content review do not apply Article 4.1, or administer the copyright laws in any way.

(b) The Zheng Haijin opinions confirm that copyright is protected in works irrespective of their status with regard to publication approval

85. The US contention that works that have not been reviewed are prohibited by law is simply wrong. To illustrate this fact, China offered analysis of the *Zheng Haijin* case in its First Written Submission. The central meaning of the *Zheng Haijin* case is that even if a work has violated publication regulations – e.g., a work being distributed without a license or without having completed mandatory review – it is still protected by the Copyright Law as long as its contents are not illegal.

(c) The US Contention that the enforcement action taken by the NCAC in *Shrek II* was not authorized under the Copyright Law is demonstrably false

86. In the US first written submission, the United States proposed a theory that in *Shrek II*, the NCAC took action pursuant to unfair competition laws and not the Copyright Law. From this incorrect observation, the United States derived a conclusion that the NCAC did not act pursuant to the Copyright Law because the *Shrek II* work had not yet been reviewed, and therefore could not enjoy copyright protection. China has demonstrated the contrary: the NCAC not only could, but did take action pursuant to the Copyright Law. China clarified this matter in China's first written submission.

B. ASIDE FROM THE BURDEN OF PROOF, CHINA HAS DEMONSTRATED THAT CHINA DOES NOT MAKE COPYRIGHT PROTECTION CONTINGENT ON A FORMALITY

87. Copyright in China vests automatically, free of any formality. Berne Article 5(2) refers to administrative requirements such as the affixing of a mark, registration, the deposit or filing of copies, or the payment of fees. China makes no such demands of Berne authors prior to either the vesting of copyright, or prior to the enforcement of copyright. While for some works, content review may be characterized as a formality precedent to publication, in no sense can it be characterized as a formality precedent to copyright. Copyright matters are not implemented through the content review system. As China has illustrated, in the *Zheng Haijin* case both the NCAC and the Supreme People's Court

affirmed that under Chinese law, it is actual illegality of content that is at issue in Article 4.1 matters, and not the content review process itself.

C. THE US CONTENTION THAT ARTICLE 4.1 OF THE COPYRIGHT LAW IS A FACIAL VIOLATION OF TRIPS IS FALSE AS A MATTER OF FACT AND LAW

88. The failure of the United States to support its Content Review Theories leaves it with only one argument: its contention that the text of Article 4.1, regardless of how it might be applied, violates Berne Article 5(1), and in turn denies enforcement under TRIPS Arts. 41.1 and 61. The United States did not clearly engage with this issue in its First Written Submission. The United States now appears to contend that its primary claim all along was facial.

1. China recognizes and preserves all rights under TRIPS: the scope and operation of Article 4.1 is extremely limited and leaves TRIPS rights unmolested

89. Chinese law recognizes and preserves all TRIPS rights. China recognizes copyright in all categories of literary and artistic works, and Chinese law guarantees all the substantive rights required by TRIPS, and indeed rights above and beyond those. As conceded by the United States, Article 10 of China's Copyright Law sets forth 17 substantive moral and economic rights that copyright owners may enjoy. And under Copyright Law Article 2, China recognizes copyright for Chinese and foreign-authored works at the moment of the work's creation, without any formality or precondition, whether a work is published or unpublished.

90. China respectfully asks the Panel to recognize that Article 4.1 is in complete accord with the censorship power recognized by Berne Article 17. It is both negligible in terms of its implications in the marketplace, and in terms of any nullification or impairment of Member benefits.

(a) China recognizes and preserves all TRIPS rights

91. TRIPS Article 9.1 incorporates Arts. 1-21 of the Berne Convention and defers to the Berne text for full explication of Member obligations. Copyright Law Article 2 directly implements an author's rights under the Berne Convention into Chinese law. So long as copyright is granted under the Berne Convention, that right is protected by Chinese law. China grants to authors all the substantive protections of the Berne Convention, in addition to others, through Article 10 of the Copyright Law.

(b) Properly understood, the scope and application of Article 4.1 are extremely limited and completely in accord with the sovereign principles recognized by Berne Article 17

92. Properly understood, Article 4.1 merely recognizes that copyright protection is meaningless in a certain context: its core principle is that Chinese law will not enforce the protections of the copyright law for works the contents of which are already illegal.

93. Accordingly, the scope and operation of Article 4.1 are extremely limited. Copyright in a work vests under Article 2 without any inquiry into whether a work is prohibited by law.

94. Under Article 4.1, to the extent that any party has a legal right to exploit the work, it is the right-holder. If at any point the work becomes other than "prohibited by law", it is the right-holder and his or her assignees who enjoy protection.

2. The sovereign right to prohibit works is recognized by International Law, the Berne Convention and TRIPS, and is not limited by those Agreements

95. Article 17 of the Berne Convention expressly recognizes a preexisting and supervening sovereign domain in which TRIPS may not interfere. That domain is the right of sovereign governments to control and prohibit the production and distribution of certain works. Berne Article 17 recognizes this sovereign interest and effectively denies WTO jurisdiction in this area. Berne Article 17, both in reserving this sensitive aspect of state power to the sovereign, and by its plain-meaning, requires broad construction and deference.

96. TRIPS incorporates the entire Berne structure of substantive rights, together with the express recognition in Article 17 that those substantive rights are subject to the sovereign's inherent right to prohibit. Thus when there is any conflict between the author's rights under the Berne Convention and the sovereign's censorship privilege under Berne Convention Article 17, the former gives way to the latter.

3. Berne Article 17 requires broad construction and deference and even under the narrowest reading, there are no rights granted to prohibited content that are denied by China's Law

97. Even if Berne Article 17 is parsed as if it limits and defines a sovereign's right to prohibit works – which China submits is an incorrect reading – China's law still does not violate Berne or TRIPS. This is true for two reasons: all of the economic rights of authors under either agreement are limited by Berne Article 17, and the fundamental TRIPS enforcement right is to give authors a power of "effective action". Failure to grant a private right to restrict publication of content that has already been banned by the government does not in any way deny "effective" action.

(a) All economic rights of authors are limited by Berne Article 17

98. TRIPS rights are economic rights. The rights guaranteed in the Berne Convention are rights to authorize certain otherwise permissible uses of a work. All affirmative economic rights may therein be limited in accordance with Berne Article 17.

99. Given that all economic rights under the Berne Convention are limited by Berne Article 17, the denial of copyright protection to illegal works under Article 4.1 cannot violate Berne Article 5(1), and in turn cannot violate Article 9.1 of TRIPS.

(b) There is no right of availability of enforcement under TRIPS Part III with respect to prohibited works

100. The United States has failed to demonstrate that China has any obligation to grant TRIPS enforcement rights to prohibited works, despite the argument set forth in its first written submission. The fundamental obligation under Part III of the TRIPS Agreement is set forth at Article 41.1. That Article charges Members to make available under their law procedures "so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement ... ."

101. The US claim, in light of this provision, falls short on two grounds. First, enforcement procedures must be provided only for rights covered by TRIPS. If a right is not covered by TRIPS, then there is no obligation to enforce it. Second, the content at issue here has been banned by the government. No person, whether the author or infringer, is permitted to publish or distribute the work. Thus, rather than grant the author a power to prohibit publication, the sovereign itself prohibits publication – prohibition that is itself rigorously enforced. By definition, then, China has provided a procedure for "effective action" against any attempt to publish that content. It is banned entirely.

4. Public prohibition completely preempts the private right of censorship

(a) Neither the Berne Convention nor TRIPS grant a right to publication: copyright enforcement confers a private right to censor works that might otherwise be published

102. The Berne Convention and TRIPS serve primarily to secure for the author the right to prohibit publication by others. Access to a market is not guaranteed. In other words, there is no right to publish under international copyright.

(b) No meaningful private rights of censorship can subsist when a work is completely prohibited

103. When governments exercise their sovereign power to censor, the exercise of private rights is moot: unauthorized copying is not permitted. Copyright continues, but enforcement is not needed: the content is banned. It may not lawfully be copied, adapted, translated, and certainly not distributed. Copyright enforcement thus is meaningless in this context.

(c) US Prohibition likewise denies effective protections for the rights of authors

104. The US law similarly subsumes protections for the rights of authors in obscene works, and in particular works of child pornography. Such a function comports with the overarching authority referenced by Berne Article 17.

D. THE UNITED STATES HAS FAILED TO PRESENT A CASE TO SUPPORT ANY OF ITS CONTENT REVIEW THEORIES OR ITS OTHER AMALGAM OF CLAIMS RELATING TO ARTICLE 4.1: THE PANEL SHOULD ACCORDINGLY ENTER A FINDING IN FAVOR OF CHINA ON THESE MATTERS

1. The burden of proof lies with the complaining party

105. According to well established Appellate Body law, the complaining party must both properly assert and prove its claim. If such proof is absent or deficient, then the respondent has no burden going forward: the complaining party must present and substantiate its *prima facie* case. In the absence of evidence other than that which has been comprehensively rebutted, it cannot be held that the complaining party has met its burden.

2. The United States has failed to meet its burden

106. With regard to its Content Review Theories, the United States has wholly failed to demonstrate that China's law makes content review a precedent condition to copyright.

107. With regard to its other claims relating to Article 4.1, the only evidence proffered by the United States is the text of the provision itself. China has offered detailed argument on the nature of international copyright law, and of the structure of the Berne Convention, and has shown that China's law and practice in this regard are not inconsistent with TRIPS.

ANNEX B-5

EXECUTIVE SUMMARY OF THE ORAL STATEMENT OF CHINA AT THE SECOND SUBSTANTIVE MEETING

I. INTRODUCTION

1. Mr. Chairman, members of the Panel: Thank you. The United States has advanced three legal claims against China in this dispute. In each of its claims the United States has mischaracterized China's laws and is asking this Panel to dramatically expand the scope of legal obligations under TRIPS.

2. China respectfully submits that this Panel must address several key questions as it confronts the meaning of a number of obligations under TRIPS. Among these questions are the following: What is the appropriate balance of obligations and rights, and of legal constraints and deference to local legal systems as provided by TRIPS Articles 1.1 and 41.5? What is the appropriate scope of core sovereign functions, such as criminal law enforcement and the power to prohibit publication? What is the appropriate role of traditional legal principles, such as *in dubio mitius*?

II. CLAIM ONE

3. China wishes to address the first claim of the United States: that China's criminal law does not fulfill TRIPS Article 61, which requires that Members must apply criminal measures to willful counterfeiting and piracy on a commercial scale.

4. First, the definition of "commercial scale" that the United States has advanced is itself vague and ambiguous and fails to establish any clear standards by which to measure compliance with Article 61.

5. Second, the actual usage of "commercial scale" suggests that it refers to a significant magnitude of activity. China has offered several examples where "commercial scale" has been treated as a distinctive phrase and has referred to a significant magnitude of activity. By contrast, the United States merely tries to construct a meaning from the definitions of separate words. But the test of ordinary meaning is how that phrase is actually used.

6. Third, the Panel, at the very least, confronts in "commercial scale" a phrase whose meaning is vague and doubtful. China respectfully submits that the Panel must consider two crucial legal principles in the face of this vagueness. The first principle is that under Article 31.1 of the Vienna Convention, the meaning of "commercial scale" must be understood in context. The relevant context is principally Articles 1.1 and 41.5 of TRIPS which reflect deference to the norms, legal systems and resource constraints of Members, and were crucial concessions for developing countries in the final negotiating rounds of TRIPS. They suggest that TRIPS would not have imposed an exacting and intrusive regulation of Members' criminal enforcement regime. The second legal principle that this Panel should recall here is that of *in dubio mitius*, which holds that ambiguous legal obligations should be interpreted to minimally intrude on Members' sovereignty. This principle suggests that although countries have the right to cede their authority over domestic criminal law, they should not be presumed to do so lightly.

7. Fourth, the United States demands for itself significant discretion in its implementation of TRIPS Article 61. The United States is correct that Members have discretion in matters of criminal

enforcement – but it is wrong as to the source of this discretion in Article 61. In fact, it is the broad and flexible standard of "commercial scale" that grants this discretion.

8. China now turns briefly to its own legal system. In addition to misconstruing the "commercial scale" standard of TRIPS, the United States has routinely mischaracterized China's criminal law regime.

9. Here the United States makes three principal errors. The first error is that the United States frequently ignores the full breadth of evidence that is legally relevant to Chinese criminal law. The second error is that the United States disregards China's general criminal laws. These general criminal laws are "criminal procedures and penalties" applicable to commercial scale counterfeiting and piracy within the meaning of TRIPS Article 61. The third error is that the United States considers only a single moment of infringement. China's criminal law considers the entire period of infringement, not a snapshot in time.

10. China wishes to make one final note with respect to the China Copyright Alliance ("CCA") Report. The United States wrongly declares that the report shows that the "vast majority of traditional retail outlets" operate under China's criminal thresholds.

11. The CCA Report summarizes administrative raids. The United States extrapolates from these administrative raids to the general state of infringement. This is a logical fallacy. Just as no one would try to measure the frequency of murder from a review of traffic police reports, so no one should assume that administrative raids portray the full range of Chinese enforcement, which includes levels of activity far beyond that dealt with by the administrative law.

12. In sum, China respectfully submits that the first claim of the United States fails. The United States has demonstrated neither that Article 61 imposes a specific and low-scale standard, nor that China's criminal laws fail to capture commercial scale activity.

III. CLAIM TWO

13. China now turns to the second claim advanced by the United States. However, before addressing the substantive issues in this claim, China wishes to register an important procedural note: the United States has failed completely in these proceedings to make the argument that China's laws governing the disposition of goods destined for export are inconsistent with TRIPS. The United States has made clear that it "takes no position" regarding the applicability of Article 59 to such goods. The Panel should therefore hold that China's measures concerning goods destined for export are not subject to the US claim regarding Article 59.

14. Concerning the substance of the US claim, two distinct components are at issue in this second claim: the proper understanding of the 1st sentence of Article 46, as applied to Article 59; and the 4th sentence of Article 46, as applied to Article 59. The United States has failed to show that China breaches TRIPS in either respect.

15. The first dispute is whether China satisfies its obligation to provide Customs with appropriate disposal authority and destruction authority. With respect to disposal authority, China has demonstrated that its Customs has the power to dispose of seized goods outside the channels of commerce through donation to social welfare organizations and direct sale to interested right-holders. The sole point of contention is whether Customs may conduct these disposition methods in such a manner as to avoid harm to the right-holder.

16. In its first written submission, the United States expressed a completely unsubstantiated concern that defective or dangerous goods would be donated, and that such goods might harm the

reputation of the right-holders or lead to unwarranted legal claims. Neither the facts nor applicable Chinese law provided any support for this claim, and the US in fact complimented China's Customs for its donations to the Red Cross. In its written rebuttal, the United States then claimed for the first time that ordinary infringing goods could also harm the right-holders' reputation. Chinese Customs, however, already takes steps to prevent such a theoretical harm to a right holder.

17. The other apparent concern of the United States is that a recipient social welfare organization will resell donated goods. This concern is equally misplaced. Chinese law requires that Customs must ensure that donated goods are used exclusively by social welfare organizations. In this regard, Customs diligently exercises its legal responsibility.

18. China would respectfully ask the Panel to note that China satisfies TRIPS fully by ensuring that its Customs has the power to order the donation of seized goods in such a manner as to avoid harm to the right-holder.

19. Under the 1st sentence of Article 46, as applied by Article 59, China must afford its Customs destruction authority as well as disposal authority. China fully satisfies this obligation.

20. The United States affords its own Customs only conditioned authority and it insists elsewhere that China do likewise. But the United States has provided the Panel no arguments as to why its favored form of conditioning is appropriate, but China's sequencing guidelines are not.

21. China has highlighted several features of Customs' appropriate destruction authority: considerable discretion; the exercise of independence and autonomy; the pursuit of legitimate government interests; and consistency with the principles of TRIPS Articles 46 and 59. China has explained that Customs has the destruction authority required by TRIPS, as well as the reality that the majority of goods seized by Customs are, in fact, destroyed by Customs in the exercise of its discretion.

22. In sum, China has vested its Customs with the appropriate power to dispose of seized goods outside the channels of commerce in such a way as to avoid harm to the right-holder. China has also provided Customs with the appropriate power to destroy seized goods. In so doing, China fully satisfies its TRIPS obligations.

23. The second dispute in Claim Two concerns the 4th sentence of Article 46. As China has explained, Article 59 does not appear to incorporate this provision. Article 59 refers to the "principles set out in Article 46." But these "principles" do not modify disposal and destruction, as the United States has alleged. These "principles" modify the authority to order disposal of destruction.

24. However, even if Article 59 were read to incorporate the 4th sentence of Article 46, China fully complies with this provision.

25. The United States argues in its written rebuttal that this sentence means that seized counterfeit goods may only be released into the channels of commerce in exceptional cases. But the US reading of the text disregards entirely the term "sufficient". In fact, "sufficient" clearly sets forth a threshold: certain acts (such as merely removing the trademark) do not normally permit discharge into the channels of commerce; and certain unspecified acts beyond removing the trademark do so permit.

26. This plain textual interpretation is buttressed in several respects. First, there is clear evidence – from the negotiating history and commentaries – that the exceptional cases were understood to refer to the return of the seized good to the non-professional infringer.

27. Second, the concern behind the 4th sentence appears to have been that infringers might cheaply recover seized goods, wait for another batch of infringing marks, and continue their counterfeiting operations.

28. It is proper to read the 4th sentence to allow public sale when authorities take needed steps – beyond the removal of the counterfeit mark – to prevent infringers from cheaply reclaiming the seized goods and reapplying infringing marks.

29. China respectfully submits that the record before the panel is clear: China Customs would be in full compliance with the 4th sentence of Article 46, even if it were read to apply. In addition to removing the infringing mark from counterfeit goods, Customs eliminates other infringing features, solicits comments from the right-holder and – most significantly – sets a reserve price for the auction. The reserve price ensures that infringers pay market price to recover their goods and that they therefore are unable to cheaply continue their counterfeiting operations.

30. The Chinese Customs' option of using an auction does not violate the 1st sentence of Article 46, as incorporated into Article 59, because it is sufficient that Customs have appropriate disposal and destruction authority. Nor does it violate the 4th sentence of Article 46, even if that were to apply to Article 59, because Customs take significant measures beyond simply removing the infringing mark.

IV. CLAIM THREE

31. China turns now to the third US claim. This relates to Article 4.1 of China's Copyright Law.

32. The focus of the original US claim was China's content review system. In this regard, the US claim was grounded on a complete misunderstanding of Chinese law, and the United States has failed to carry its burden of proof.

33. The failure of the United States to support its allegations is worthy of review. At paragraph 198 of its first written submission, the United States made four key false and unsupported assertions.

34. First, the United States asserted that Chinese copyright law "provides no protection to works that are awaiting the results of content review in China." China has, however, given the Panel a specific example of this enforcement: the *Shrek II* enforcement actions by the NCAC, protecting the copyright in a work that had not completed the content review process.

35. Second, the United States asserted that where a work is never submitted for content review, China "provides no copyright protection." China, has provided legal analysis to show that such works in fact do receive copyright protection, and has provided examples of enforcement actions aimed at protecting the copyright in such works.

36. Third, the United States stated that where a work is edited to pass content review, Chinese copyright law "provides no copyright protection for the version that was not authorized for distribution in China." China has demonstrated that these works do receive copyright protection: NCAC Circular number 55 set up procedures to protect 700 US films, without inquiry as to whether the films were edited to pass content review.

37. Fourth, the United States challenged China's content review by contending that works that fail content review do not receive copyright protection. China, has shown that it will protect the copyright in the legal content of a work, even if that work fails content review as a whole.

38. In its written rebuttal, the United States merely reiterated its flawed theories, focusing this time on the contention that content review imposes a formality on the "enjoyment and exercise" of copyright in violation of Article 5(2) of the Berne Convention. This is not true.

39. With the failure of the US arguments regarding content review, all that remains of the US claim is a facial challenge to Copyright Law Article 4.1. As an initial matter, China wishes to highlight that the United States has not been able to provide a single example of a case where Article 4.1 of the Copyright Law has been applied.

40. That noted, China respectfully submits that the Panel's analysis of this facial challenge to Article 4.1 should begin with Article 17 of the Berne Convention.

41. Article 17 of the Berne Convention recognizes, and does not limit, the sovereign right to impose censorship.

42. The Berne rights that are incorporated into TRIPS are economic rights. Under any construction of Berne Article 17, there are no remaining enforceable private economic rights when a work is subject to prevailing public censorship.

43. Finally, as part of its facial challenge to Article 4.1, the United States has argued that Article 4.1 denies copyright protection to a category of works, in violation of Article 2 and Article 5(1) of the Berne Convention. This also is incorrect. Even when a work has been found to contain prohibited content, China continues to recognize the author's copyright in the work's legal content. And that copyright will be protected if it is found to be infringed by a work that is legally circulating within China.

44. China respectfully asks the Panel to find that the United States has failed to meet its burdens on its Claim Three arguments, and to rule in favor of China. The United States has failed to offer evidence to support its misreading of Chinese law, and the United States has failed to demonstrate that Article 4.1 of China's copyright law violates TRIPS on its face.

ANNEX B-6

CLOSING ORAL STATEMENT OF CHINA AT THE SECOND SUBSTANTIVE MEETING

I. INTRODUCTION

1. Mr. Chairman, members of the Panel: The People's Republic of China wishes to thank you for your time and attention in this meeting, and for your service on this Panel. The care that you have taken to prepare for this dispute has been evident throughout this proceeding. China also wishes to thank the WTO Secretariat Staff for its excellent work.

2. We have now exchanged two rounds of written submissions and held two substantive meetings. It is appropriate to consider the status of the key issues in this dispute, and to review the tasks remaining for the Panel.

3. In the broadest terms, the United States has failed to make its case. In each of the three claims the United States' case depends on legal interpretations that run counter to the governing agreements and a flawed understanding of Chinese law and practice. On many issues the United States has failed even to advance a *prima facie* case.

4. Let me briefly turn to the specific claims.

II. CLAIM ONE

5. The United States has asked this Panel to conclude that an infringer must be subjected to criminal penalties whenever that infringer is "seriously engaged" in pursuing financial gain. While the United States contends that its proposal is not an "intent" test, it is hard to describe "pursuing financial gain" as anything else. The discussion of the proposed US definition in this meeting offered nothing to dispel that conclusion.

6. The United States also contends that the rules of treaty interpretation leave "no doubt" about the meaning of the "commercial scale" standard. If by that the United States means that there is no doubt regarding it own proposed standard, China respectfully submits that the discussion of the US proposal at this meeting in fact identified considerable cause for doubt.

7. China has shown that an intent test like that of the United States was expressly rejected in the TRIPS negotiations. The Panel should also reject an intent test here, however it may be described.

8. Instead of an intent test, the TRIPS agreement adopted an objective test based on the scale of infringing operations – the "commercial scale" test. It is this test that the Panel must apply.

9. To apply this test, the Panel faces a challenge. Far from being without "doubt", the test in fact needs considerable definition. The Panel must take a very broad standard – "commercial scale" – and apply it to the very specific implementation of a Member country. The United States has not identified a concrete, principled approach for the Panel to do this. Through all the pleadings and meetings in this dispute, the United States instead has relied on hypothetical examples that assume their own conclusion. These examples follow a pattern: they describe a hypothetical infringement, allege that it falls beneath China's thresholds, and then assert that operations of that kind are infringement at a commercial level. China already has briefed this issue, and will not respond to those

examples again this morning. Instead, China notes that the Panel should adopt a standard that is objective and not the creature of hypothetical facts.

10. China, in contrast, has given the Panel two concrete measures. First, it has proposed a comparison to official statistics that describe the actual scale of commerce in China. Second, China has compared the thresholds for intellectual property crimes to the thresholds of other commercial crimes, and noted the importance of this comparison in light of the second sentence of Article 61, and in light of the deference to national systems expressed in Articles 1.1 and 41.5.

11. In defining the commercial scale standard, the Panel faces an important decision in the jurisprudence of TRIPS. China urges it to apply a standard that respects the compromises reached in the TRIPS negotiations, both in the text of Article 61 itself, and in the broader context of Article 1.1 and 41.5. At the same time, the Panel should apply a standard that is capable of principled application to a Member's actual implementation.

12. China is confident that if the Panel applies the correct standard, it will find that China's criminal IPR law meets that standard.

III. CLAIM TWO

13. With respect to Claim Two, the United States has asked this Panel to conclude that under TRIPS Members may not preference donations to charity over destruction. China has already explained why its Customs prefer certain disposition methods, such as charitable donation, over destruction. Yesterday, in response to a question from the Panel, the United States again commended to China that donation of seized goods be conditioned on the approval of the right holder - just as the United States does in its own practice. The United States appears to approve the constraints on authority that the United States itself prefers, but at the same time, reject the conditions, such as prioritizing donation to charity, that it does not. Moreover, the United States continues to wrongly assert that Chinese Customs injures right holders through donations to charities such as the Red Cross. China has detailed, with numerous laws and concrete examples, precisely how Customs avoids harm to the right holder. When asked during this hearing for actual examples of charitable donations causing harm to right-holders in China, the United States declined, as it has in the past.

14. China was disappointed by the number of inconsistencies and factual inaccuracies in the US statement yesterday. For example, the United States told the Panel that the circumstances under which China's legal regime permit destruction were "highly limited," but the actual Chinese Customs data already provided in this dispute flatly contradict that assertion. The data demonstrate the extensive use of the destruction option by China Customs. The United States also provided the parties and Panel with a chart purporting to explain China's disposal and destruction regime, but then later acknowledged that the chart was incomplete, and did not cover several relevant laws and options.

15. Lastly, as the Panel deliberates and prepares its rulings, China would respectfully ask that its decision address the complete US failure to argue that China's laws governing the disposition of goods destined for export are inconsistent with TRIPS. The United States has made clear that it "takes no position" regarding the applicability of Article 59 to such goods. The Panel should therefore hold that China's measures concerning goods destined for export are not subject to the US claim regarding Article 59.

IV. CLAIM THREE

16. China has set forth in detail the shortcomings of the US case on Claim Three. On most of the subject matter of its claim, the United States has not made a prima facie case. On the remainder, the US argument falls short, both because it focuses on a highly theoretical concern, and because it is

contradicted by the best reading of the Berne Convention. China has set these points forth in detail in its written submissions, and will not repeat them again this morning.

17. China must, however, call to the attention of the Panel some misstatements of fact and misstatements of China's position that were made in the US oral statement. This is not a comprehensive list of issues, and China will not address many questionable US points, particularly those that China already has rebutted. But today China calls attention to several particularly egregious misstatements that China believes it must identify on the record of this meeting.

18. First, in the absence of any concrete example of any actual application of Article 4.1, at paragraph 69 of its oral statement the United States simply blames Article 4.1 for the existence of infringement in China. China asks the Panel to recognize that this is mere allegation, not fact, and that the United States has offered no support whatsoever for this point.

19. Second, at paragraph 76 the United States claims that Article 4.1 denies copyright protection to any work where pre-publication review is required and has not been received. This is simply not true. China has demonstrated to the contrary in its pleadings, and China notes particularly that even at this late stage of the proceeding the United States cannot support this statement either with legal analysis or with a single example.

20. Third, at paragraph 77 the United States claims that China "admits" that "regardless of whether a particular defendant raises a formal defense, courts and the NCAC must determine the legality of a work *de novo*." China protests in the strongest terms this misstatement of its position. China has made no such admission. China's statement was made in the context of a case where the issue in fact *was* before the court. Once the issue is before the court, then, if content review had not previously been undertaken, the court would have to inquire into the legality of the content *de novo*. This is all that China said. China most assuredly is *not* of the view that such a court review of content must be made in every copyright enforcement action. China also notes that the United States again misstates this point in paragraph 78.

21. Fourth, and finally, in paragraph 79 the United States makes a major misstatement of Chinese law. The United States alleges that content review processes prohibit the publication or dissemination of works until the pass content review, and then tries to link this point to the language of Article 4.1. China has briefed this point extensively and will not repeat its analysis here, but does ask the Panel to recognize the US assertion for what it is – allegation that is simply not credible. China asks the Panel to demand more from the United States – to demand legal analysis and specific examples.

22. These misstatements, unfortunately, characterize much of the US case before this Panel. China respectfully requests the Panel to recognize to the failures in the US case, and to rule in China's favor.

* * *

23. This concludes China's closing statement. China again expresses its gratitude for the hard work and attention of the Panel and the WTO staff, and looks forward to responding to the Panel's written questions.

ANNEX C

ARGUMENTS OF THE THIRD PARTIES

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ANNEX C–1

EXECUTIVE SUMMARY OF THE THIRD PARTY SUBMISSION BY ARGENTINA

I. INTRODUCTION

1. Argentina has a systemic interest in the proper interpretation of the provisions of the Agreement on Trade Related Aspects of Intellectual Property Rights - TRIPS Agreement –as it is arranged by the Article 3.2 of the Dispute Settlement Understanding which establishes that: "… Recommendations and rulings of the DSB cannot add to or diminish the rights and obligations provided in the covered agreements".

2. Argentina wishes to provide views on three issues related to Articles 61, 41.1, 59, 46 and 9.1 under the TRIPS Agreement as they are interpreted and applied in the present case. These are:

(a) The thresholds for criminal procedures and penalties.

(b) The disposal of confiscated goods that infringe intellectual property rights under TRIPS Agreement.

(c) The alleged denial of copyright and related rights protection and enforcement to works that have not been authorized for publication or distribution within China.

II. LEGAL ARGUMENTS

A. CLAIMS REGARDING THE THRESHOLDS FOR CRIMINAL PROCEDURES AND PENALTIES IN CHINA

1. China's measures do not appear to be inconsistent with China's obligations under Article. 61 of the TRIPS Agreement

3. Respectfully, Argentina offers another interpretation of the Article 61, according to which China's measures would not appear to be inconsistent with China's obligations under Article 61 of the TRIPS Agreement. First, it's well established –also in WTO jurisprudence – that the fundamental rules of treaty interpretation are Article 31 "General rule of interpretation" and Article 32 "Supplementary means of interpretation" of the Vienna Convention on the Law of the Treaties. Pursuant to Article 31.1 of the Vienna Convention, we have to interpret in good faith the provisions in accordance with the ordinary meaning given to the terms of the treaty in their context and in the light of its object and purpose. So, reading treaty terms in their context requires that the text of the treaty must, of course, be read as a whole. One cannot simply concentrate on a paragraph, an article, a section, a chapter or a part. It means that, in order to establish the real meaning of Article 61 of the TRIPS Agreement we need to read all the articles of the Agreement and, besides, its preamble and annexes.

4. In this sense, Argentina states that the TRIPS Agreement does not only impose obligations or duties on WTO members, but also grants them an important set of rights.

5. The TRIPS Agreement is often drafted in general terms. Members are not bound by an inflexible set of rules in implementing them. On the contrary, Members have the right to use the flexibility inherent in the Agreement, as well the obligation to meet its minimum requirements.

6. For example, Article 1.1 of the TRIPS Agreement obligates Members to <u>give effect</u> to the provisions of the Agreement. It also provides that Members <u>shall be free to determine the appropiate method of implementing the provisions of this Agreement within their own legal system and practice</u>.

7. In other words, Article 1.1 provides flexibility for Members to implement the TRIPS Agreement in the manner of their own choosing, provided that the specific requirement of the Agreement are met. The implementation of Intellectual Property Law in national legal systems involves choosing between different approaches.

8. Article 61 of the TRIPS Agreement obligates Members to provide criminal penalties for trademark counterfeiting and copyright piracy on a commercial scale, allowing for the possibility of imprisonment and/or fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of corresponding gravity. So, any Member of World Trade Organization, including China, has discretion to follow its own traditions in matters of enforcement.

9. Second, because the enforcement rules of the TRIPS Agreement are unique in the multilateral context, there is little prior international experience. The characteristics of legal systems around the world as regards procedure in civil enforcement matters are rather different, stemming from various cultural and legal traditions. In this sense, uniform methods of implementing the enforcement provisions should not be expected. In other words, China is clearly permitted to approach civil enforcement provisions in a way compatible with its own legal traditions, and to implement the enforcement provisions in a way compatible with its existing constitutional and regulatory framework.

10. Third, related to legal traditions, it is useful to remind that criminal law is of exclusive domain of sovereign jurisdiction. This is the reason why governments are exceptionally subject to international commitments in this field and these exceptional commitments are general obligations that permit discretion regarding implementation.

2. China's measures do not appear to be inconsistent with China's obligations under Article 41.1 of the TRIPS Agreement

11. Respectfully, Argentina offers another interpretation of Article 41.1, according to which China's measures would not appear to be inconsistent with China's obligations under Article 41.1 of the TRIPS Agreement. Again, in order to establish the real meaning of Article 41.1 of the TRIPS Agreement we need to read all the articles of Agreement and, besides, its preamble and annexes.

12. Specially, we need to give attention to Article 1.1 of the TRIPS Agreement that obligates Members to give effect to the provisions of the Agreement and, besides, provides that Members shall be free to determine the appropiate method of implementing the provisions of this Agreement within their own legal system and practice.

13. In fact, Article 1.1 of the TRIPS Agreement provides flexibility for Members to implement the TRIPS Agreement in the manner of their own choosing, provided that the specific requirement of the Agreement are met. The implementation of Intellectual Property Law in national legal systems involves choosing between different approaches.

14. Besides, pursuant to Article 41.2 of the TRIPS Agreement, Members are obligated to ensure that enforcement procedures are fair and equitable.

15. Finally, Article 41.5 of the TRIPS Agreement establishes: "It is understood that this Part does not create any obligation to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general, nor does it affect the capacity of Members to enforce their law in general. Nothing in this Part creates any obligation with respect to the distribution of resources as between enforcement of intellectual property rights and the enforcement of law in general."

16. Respect of this particular point, Argentina desires to highlight the relative character of the obligation contained in Article 41.1. In fact, this obligation is not an absolute obligation. In order to attend the enforcement of intellectual property rights, the Members do not have the obligation of neglect the enforcement of their law in general. This point is particularly important for Argentina, and other countries that, sometimes, suffer limitations of resources to enforce the law in general. During the negotiations of the TRIPS Agreement and foreseing exigencies like that of the United States, we insisted in the inclusion of this particular limit contained in Article 41.5.

17. During the negotiations of TRIPS, developing countries said that they could not accept to commit scarce law enforcement resources. Argentina and other countries held that enforcement shall include administrative and civil remedies and, in appropiate cases, penalties under criminal law and shall be provide **within the limits of its administrative resources and capabilities**.[1]

B. CLAIMS REGARDING THE DISPOSAL OF CONFISCATED GOODS THAT INFRINGE INTELLECTUAL PROPERTY RIGHTS UNDER THE TRIPS AGREEMENT

1. Customs' donations of infringing goods to social welfare organizations do not appear to be inconsistent with China's obligations under Articles 59 and 46 of the TRIPS Agreement

18. The second set of US claims refers to how the Chinese customs authorities must deal with infringing goods seized at the border.

19. On this issue, Argentina is concerned about carrying out a proper interpretation of Article 59. As mentioned in this subsmission, this interpretation should consider, not only the analysis of this Article *per se*, but a whole understanding, performed in the context of the TRIPS Agreement.

20. As supported by the United States, in Argentina's view, the interpretation of the mentioned provisions set out two equally viable options for customs officials: these are the "disposal" and the "destruction" option.[2]

21. Notwithstanding that, it must be highlighted that Article 46, while stating the first above mentioned option (the possibility of "dispos[ing] of [the infringing goods] outside the channels of commerce in such a manner as to avoid any harm caused to the right holder… "), vests Member's Customs authorities with considerable discretion to determine what method is the most appropriate on a case-by-case basis.

22. However, despite the discretion granted by first option of Article 46, that Article requires necessarily the fulfillment of two conditions so as to be fully applied. In the first place, the infringing merchandise "…must be disposed of outside the channels of commerce", and secondly, that disposal of infringing goods must be carried out "…in such a manner as to avoid any harm caused to the right holder…".

23. Furthermore, as mentioned in the preceding paragraphs, in Argentina's point of view, the Articles in detail analysed cannot be understood in isolation. The proper criterion must consider these Articles in conjunction with the other TRIPS provisions; specially, letter (c) of its Preamble, Article 1.1 (in Part I, "Nature and Scope of obligations), Article 8.1 (in Part I, "Principles") and Article 41.5 (in Part III, Section 1, "General Obligations").

[1] Communication from Argentina, Brazil, Chile, China, Colombia, Cuba, Egypt, India, Nygeria, Peru, Tanzania, and Uruguay, Negotiating Group on Trade Related Aspects of Intellectual Property Rights, including Trade in Countefeit Goods, MTN.GNG/NG11/W71, circulated 14 May 1990, p. 12.

[2] United States' first submission, para. 177.

24. As a result, it must be underlined that the TRIPS Agreement considers as an essential objective, not only the reinforcement of trade-related intellectual property rights but also the accomplishment of other subjects; such as the need of improving the standards of living of the Members, especially of the less-developed ones, with special attention to their public health and nutrition concerns. Likewise, it is considered essential to take into account the differences among national legal systems; the consideration that Members are not constrained to adopt specific measures as regards the enforcement; as well as the fact that they are not obliged to apply more extensive protection than the accepted in the Agreement.

25. Having said this, Argentina shall develop one of the possible alternatives pursuant to Article 59 and Article 46: customs' donation of infringing goods to social welfare organizations.

26. In the case at issue ("donation"), the first [1] requirement of Article 46 ("the disposal outside the channels of commerce") would be fulfilled, as the donation of the infringing merchandise implies itself a disposal of goods outside the channels of commerce. On the other hand, the accomplishment of the second [2] requirement of that provision ("the avoidance of harm to the right holder") would need to be determined by customs authorities on a case-by-case basis.

27. For instance, given a particular case, customs should necessarily determine both the suitability of the merchandise for social welfare and the quality of the goods (goods that pose health or safety threats should be rejected). After adopting such a determination, customs officials should diligently exercise its supervising authority, by ensuring that those donated goods were used by social welfare organizations and for social welfare purposes.[3] Given this screening activity, it would be groundless to assert, as the United States did, a hypothetical harm to the right holder's reputation, since "shoddy" "defective" or "dangerous" goods" would not be donated to welfare institutions.[4]

28. On the other hand, in Argentina's point of view, it is totally baseless the assertion of the United States in the sense that "nothing appears to prevent public welfare organizations from selling the infringing goods they receive […], thus moving these goods back into commerce". Since we are referring to social welfare organizations, and by definition they do not develop a lucrative activity, to support that assertion would be totally erroneous.

29. Finally, the United States, while analysing the viability of this measure, support that only one formulation would be satisfactory: "[…][w]here the donation to charity is an option, and the donation has the right-holder's consent […]".[5] As supported by China, Argentina believes that "[…]this assertion vastly exaggerates the scope of the TRIPS obligation to avoid harm to the right-holder[…]".[6]

C. CLAIMS REGARDING THE DENIAL OF COPYRIGHT AND RELATED RIGHTS PROTECTION AND ENFORCEMENT TO WORKS THAT HAVE NOT BEEN AUTHORIZED FOR PUBLICATION WITHIN CHINA

1. China's measures could be inconsistent with China's obligations under Article 9.1 of the TRIPS Agreement.

30. In Argentina's point of view, the text of Article 4 creates a relationship between the prohibition of publication or distribution and the protection provided by the Chinese Copyright Law.

[3] China's first submission, para. 160.
[4] United States' first submission, para. 186.
[5] United States' first submission, para. 185.
[6] United States' first submission, para. 185.

31. The text of Article 4 of the Chinese Copyright Law is straightforward, and creates doubts about its consistency with the Article 9.1 of TRIPS Agreement. Probably, Article 4 could need to be re-redacted in order to avoid, in certain cases, the possibility of being interpreted as a disguised restriction on international trade.

32. In fact, the TRIPS Agreement substantive provisions on copyright involve incorporated provisions of the Berne Convention – Article 1 throught 21 and the Appendix. And, China and the United States are Members of the Berne Convention.

33. The Berne Convention rests on three basic principles. Firstly, there is the principle of national treatment. Secondly, there is the principle of automatic protection. Thirdly, there is independence of protection.

34. The principle of national treatment is stablished in Article 5(1) of the Berne Convention:

> "(1) Authors 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."

35. Because of the second principle of automatic protection national treatment is not dependent on any formality. Articles 5(2) of the Berne Convention are quite straightforward: Protection is granted automatically and is not subject to the formality of registration, deposit, authorization, or the like. In relevant part, Article 5(2) states:

> "(2) The enjoyment and the exercise of these rights shall not be subject to any formality…"

36. Notwithstanding, the first sentence of Article 4 of the Chinese Copyright Law provides as follows:

> "Works the publication or the distribution of which is prohibited by law shall not be protected by this Law".

37. So, this Article appears to deny to works which are prohibited or not permitted, the protection stablished in Article 10, 46 and 47 of the Chinese Copyright Law. It is necessary to remember that Article 10 of the Chinese Copyright Law contains the rights enumerated by the Berne Convention, and Articles 46 and 47 provide civil, administrative and criminal liability for copyright infringement.

38. So, Article 4 of the Chinese Copyright Law excludes from Copyright Protection the works whose publication or distribution is prohibited by law.

39. Anyway, this does not imply that China has no right, under the TRIPS Agreement or the Berne Convention, to prohibit the publication or distribution of certain kind of works. In fact, Article 17 of the Berne Convention contemplates such possibility.

III. CONCLUSION

40. Argentina wishes that the preceding observations will prove useful in the deliberations of the Panel and reserves its rights to make further observations in the oral hearing.

ANNEX C-2

EXECUTIVE SUMMARY OF THE THIRD PARTY SUBMISSION BY AUSTRALIA

I. INTRODUCTION

1. This submission addresses some issues relevant to the interpretation of the provisions of the TRIPs Agreement at issue. The submission focuses on:

- the meanings of "criminal", "wilful", "trade mark counterfeiting", "copyright piracy", "commercial scale" and "sufficient to provide a deterrent" in, and the character of the obligations created by, TRIPs Article 61;
- the meaning of "the channels of commerce" in TRIPs Article 46, and how it relates to TRIPs Article 59; and
- the meaning of "any formality" in Article 5(2) of the Berne Convention.

2. Australia reserves its position in relation to any issue not addressed in this submission.

II. TRIPS ARTICLE 61

3. Article 61 requires (1) that a WTO Member "shall provide for criminal procedures and penalties to be applied at least in cases of wilful trade mark counterfeiting or copyright piracy on a commercial scale", and (2) that the "remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent …". To understand the character of the obligations intended to be created by Article 61, this submission first considers the meanings of "criminal", "wilful", "trade mark counterfeiting", "copyright piracy", "commercial scale" and "sufficient to provide a deterrent".

4. Australia considers "criminal procedures" to mean procedures initiated by or on behalf of the state[1] to punish offences against the common well-being. Depending on the gravity of the offence, such proceedings may lead to punishment in the form of imprisonment and/or a fine, although other forms of punishment may be available in some circumstances.

5. "Wilful", in context, establishes that any intentional action that results in trade mark counterfeiting or copyright piracy is potentially encompassed by the scope of Article 61.

6. Although "trade mark counterfeiting" is not defined in the TRIPs Agreement, its meaning can be determined having regard to:

- the nature of a trade mark in accordance with TRIPs Article 15.1;
- the right required to be granted to the owner of a registered trade mark in accordance with TRIPs Article 16.1;
- the ordinary meanings of the word "counterfeit", the relevant verb, in context; and
- the meaning of "counterfeit trade mark goods" in footnote 14(a) to the TRIPs Agreement.

[1] Australia notes that, in some WTO Members, criminal procedures can be initiated by or on behalf of "the state" at sub-national level.

7. In Australia's view, "trade mark counterfeiting" should be understood to be the unauthorised use in the course of trade of a sign, or a combination of signs, that is identical to or that cannot be distinguished in its essential aspects from a registered trade mark when the sign is applied in relation to goods or services for which the trade mark is validly registered.

8. "Copyright piracy" is not defined in the TRIPs Agreement, but its meaning can be determined having regard to:

- the rights required to be granted in literary and artistic works in accordance with the Berne Convention as incorporated by TRIPs Article 9.1;
- the rights required to be granted in computer programs and compilations of data in accordance with TRIPs Article 10;
- the rental rights required to be granted at least in respect of computer programs and cinematographic works in accordance with TRIPs Article 11;
- the rights of performing artists in their performances in accordance with TRIPs Article 14.1, of producers of phonograms in their phonograms in accordance with TRIPs Article 14.2 and of broadcasting organizations in their broadcasts, in accordance with TRIPs Article 14.3 (the "related rights");
- the ordinary meaning of the word "piracy" in context; and
- the meaning of "pirated copyright goods" in footnote 14(b) to the TRIPs Agreement.

9. In Australia's view, "copyright piracy" concerns any copyright or related right. Copyright piracy includes at least the unauthorised reproduction and/or distribution of copies of material in which copyright or a related right exists.

10. Article 61 applies to wilful trade mark counterfeiting or copyright piracy on a "commercial scale". Historically, "commercial scale" in relation to counterfeiting or piracy has been understood to mean generally a level of activity involving multiple copies of protected signs or material, undertaken for the purposes of financial reward. However, the advent of digital technology has facilitated the unauthorised copying and distribution of protected signs and material, leading to the emergence of different types of infringing activity:

- for financial reward, such as where multiple counterfeit or pirated copies are made and sold in pursuit of profit;
- for commercial advantage, such as where a business exceeds its software licence conditions in terms of numbers of copies of, or employees granted access; and
- that has a substantial prejudicial impact on the copyright owner, for example, where digital copyright material is uploaded and then shared using peer-to-peer file sharing technology.

11. There is no express dictionary definition of "commercial scale". That said, Australia notes the ordinary meaning of the word "commercial" incorporates within its scope matters *affecting* a commercial activity in pursuit of a financial reward. Australia notes too that the ordinary meaning of "scale" in context incorporates the notion of a comparative assessment.

12. In Australia's view, the ordinary meanings of the individual words "commercial" and "scale" require that "commercial scale" be understood in context as encompassing any act or series of acts of

trade mark counterfeiting or copyright piracy that adversely affects the financial rewards available to a right holder within a Member's territory.[2] The ordinary meanings of the words "commercial scale" considered in context either individually or together do not:

- implicitly restrict the indicators that may be used to assess whether infringing activity is on a commercial scale; or

- compel a requirement that a person engaging in an infringing activity must receive a financial return from that activity, or a financial return of a particular magnitude; or

- compel a requirement of multiple infringing acts.

13. Moreover, having regard to the different types of infringing activity set out above, it is Australia's view that the issue of whether wilful counterfeiting or piracy is "on a commercial scale" can only be determined case-by-case in a criminal procedure that can take account of all relevant circumstances, including the potential impact of digitally-based technologies.

14. Australia considers "sufficient to provide a deterrent", in context, to mean adequate to actively discourage others from acting (in a particular way) because of the likely consequences.

15. Having considered the meanings of some the individual terms of Article 61 in their context, we now turn to the character of the obligations created by TRIPs Article 61.

16. Article 61 establishes extraordinary obligations on a Member in cases of enforcement actions concerning "wilful trade mark counterfeiting or copyright piracy on a commercial scale". It obliges a Member to make intentional acts of counterfeiting or piracy that substantially affect a right holder's financial interests in a protected sign or material in relation to that Member's territory subject to criminal procedures and penalties.[3]

17. Article 61 obliges a Member to include imprisonment and/or monetary fines among the available remedies that may be imposed as a result of a criminal procedure in cases of "wilful trade mark counterfeiting and copyright piracy on a commercial scale". Article 61 also requires that a Member ensure that the terms of imprisonment and/or levels of monetary fines that can be imposed are adequate to deter similar future activity. A further requirement of Article 61 is that the penalties that are imposed are consistent with the level of penalties applied for crimes of a corresponding gravity.

18. Article 61 creates an obligation of result, i.e., a Member must put in place penalties that are sufficient to actively discourage others from engaging in acts of wilful trade mark counterfeiting and copyright piracy on a commercial scale. Moreover, a Member must actively prosecute and punish such acts, or the effectiveness of the available penalties as a deterrent will be diminished. Whether the available punishments "are sufficient to provide a deterrent" within the meaning of a Member's obligation under Article 61 is an assessment to be made by the Member having regard to the circumstances prevailing in its territory. Nevertheless, it is open to another Member to challenge the

[2] In that regard, Australia endorses the statement that "… 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." (United States first submission, para.110).

[3] Australia notes that it is open to a Member to provide for a higher standard of protection to be applied in other cases of infringement of intellectual property rights pursuant to the final sentence of Article 61 and/or to TRIPs Article 1.1.

adequacy of a Member's remedies to achieve the deterrent effect required by Article 61 under the dispute settlement provisions of the TRIPs Agreement.

III. "THE CHANNELS OF COMMERCE" AND TRIPS ARTICLE 59

19. Article 59 provides that, in relation to the cross-border movement of goods, competent authorities are to have "the authority to order the destruction or disposal of infringing goods in accordance with the principles set out in [TRIPs] Article 46". In Australia's view, the "principles set out in Article 46" include that infringing goods be disposed of "outside the channels of commerce in such a manner as to avoid any harm caused to the right holder".

20. The ordinary meanings of the individual words "channels" and "commerce" are sufficiently broad in scope that the phrase "the channels of commerce" should be understood in context as meaning any activity relating to the supply or transfer of goods in pursuit of financial reward. Such activities can be connected with any aspect of the supply chain, from manufacture to point of sale. Australia notes that "the channels of commerce" can include the Internet, for example, for the distribution of both digitally-based and physical products.

21. Australia notes that the first sentence of TRIPs Article 44 requires that the judicial authorities of a Member have the authority "… to prevent the entry into *the channels of commerce* in their jurisdiction of imported goods that involve the infringement of an intellectual property right, *immediately after customs clearance* of such goods." In Australia's view, that obligation establishes that, as a minimum requirement, the boundaries of "the channels of commerce" in relation to a Member's territory must be considered to commence "immediately after customs clearance".

22. Understanding the meaning of "the channels of commerce" to be any activity relating to the supply or transfer of goods in pursuit of financial reward within a Member's territory is consistent with the final sentence of Article 46, which concerns a Member's obligations in relation to infringing activity within its territory. The fact that the simple removal of a counterfeit trade mark is rarely likely to be sufficient to permit release of the underlying goods into "the channels of commerce" confirms the scope of the meaning to be given to that expression. Those goods can still cause harm to a right holder within a Member's territory, for example, by saturating the market and reducing demand for the genuine article.

23. Moreover, Australia considers that the final sentence of Article 59 supports its view of the meaning of "the channels of commerce" in Article 46. Other than in exceptional circumstances, a Member is obliged not to allow the re-export of infringing goods in an unaltered state but is not, for example, precluded from allowing the re-export of infringing goods from which a counterfeit sign has been removed. The difference in a Member's obligations concerning treatment of the underlying goods according to whether the infringing goods are being dealt with within a Member's territory or at the border reflects that goods being re-exported are not entering "the channels of commerce" in that Member's territory.

24. Having regard to the principles set out in Article 46, Article 59 requires that a Member's customs or other competent authorities concerned with border measures have the authority to order the destruction of infringing goods, or the disposal of those goods in such a manner as to avoid any harm being caused to the right holder in "the channels of commerce".

25. Article 59 requires, in effect, that a Member's competent authorities be able to order that infringing goods be destroyed or be disposed of in such a manner that the goods do not enter "the channels of commerce" within that Member's territory. Such disposal methods could include recycling or donation to a charity within a Member's territory, provided the infringing goods are not likely to enter "the channels of commerce" as a result.

IV. THE MEANING OF "ANY FORMALITY" IN ARTICLE 5(2) OF THE BERNE CONVENTION

26. By virtue of TRIPs Article 9.1, WTO Members are required to comply with Article 5(2) of the Berne Convention. Article 5(2) provides in relevant part that "[t]he enjoyment and the exercise of these rights shall not be subject to any formality; …".

27. Article 5(2) prohibits the enjoyment and exercise of rights in a protected work being subject to any prior legal or administrative procedure, such as registration of the work or approval of its content. Australia notes, however, that Article 17 of the Berne Convention expressly reserves to a Member the right to permit, control or prohibit the circulation, presentation or exhibition of a work or production.

ANNEX C-3

ORAL STATEMENT BY AUSTRALIA

1. Thank you for this further opportunity for Australia to present its views on the issues raised by this dispute.

2. For the first time in respect of several of the enforcement provisions of the TRIPs Agreement, this panel will have to clarify those provisions in accordance with customary rules of interpretation of public international law, as required by Article 3.2 of the DSU. In this regard, Australia notes that the Appellate Body has previously observed:

> "… The ordinary meaning of a treaty term must be ascertained according to the particular circumstances of each case. Importantly, the ordinary meaning of a treaty term must be seen in the light of the intention of the parties 'as expressed in the words used by them against the light of the surrounding circumstances'.[…]"[1]

3. Australia has set out in its written submission its views on how some of the terms in the provisions at issue should properly be interpreted.

4. In particular, Australia has noted that Article 61 of the TRIPs Agreement establishes more onerous obligations in respect of "wilful trade mark counterfeiting or copyright piracy on a commercial scale". Australia does not consider that the scope of a Member's obligations in respect of such activity is limited or otherwise tempered by Articles 1.1 or 41.5 of TRIPs. Those provisions relate to a Member's rights in relation to the method of implementation of its obligations under the TRIPs Agreement, but do not affect the character of a Member's obligations under Article 61, or indeed any other provision.

5. Australia would of course be pleased to provide responses to any questions that the Panel may have.

[1] *EC –Chicken Cuts*, Appellate Body Report, WT/DS269/AB/R, WT/DS286/AB/R, paragraph 175.

ANNEX C-4

EXECUTIVE SUMMARY OF THE THIRD PARTY SUBMISSION BY BRAZIL

I. INTRODUCTION

1. Brazil's comments in this dispute will be provided in view of its systemic interests concerning the issues raised by the parties and the findings to be developed by the Panel. Being the first dispute focused on Part III of the *Agreement on the Trade-Related Aspects of Intellectual Property Rights* (the "TRIPS Agreement"), this Panel's conclusions could have a significant impact on the balance of rights and obligations inherent to the TRIPS Agreement. Brazil is of the view that nothing in this dispute should alter TRIPS' finely negotiated balance or expand its current coverage.

II. ARGUMENTS

A. CONSIDERATIONS ON THE FLEXIBILITIES OF THE TRIPS AGREEMENT

2. In its first written submission, the United States opts for a selective approach to the TRIPS Agreement provisions that seems to ignore overarching provisos, such as Articles 1.1, 7, 8, 41.5 and the preamble itself, which provide the broader framework under which the TRIPS Agreement is meant to be implemented.

3. Additionally, the United States apparently seeks, through the use of the World Trade Organization ("WTO") dispute settlement mechanism in this case, to expand the scope of certain treaty terms and provisions, suggesting that the Panel should adopt expansive interpretations of the treaty, thereby extrapolating actual coverage, and encroaching upon Members' room for regulating these particulars through their national legislations. From a systemic perspective, this gives rise to several concerns, particularly to developing Members.

4. The interpretations and thresholds that the United States asks the Panel to follow seem intended to alter the scope of the TRIPS Agreement, eliminating flexibilities that were deliberately embedded in the TRIPS Agreement by a decision of Members, and that constitute an integral part of the negotiating process and agreed outcomes of the Uruguay Round single undertaking. In Brazil's view, the Panel's role is to *clarify* the existing provisions, as limited and mandated by Article 3.2 of the Dispute Settlement Understanding ("DSU"), and not to go beyond, filling in and establishing parameters that are intentionally not provided in the TRIPS Agreement exactly because they were left to be defined by domestic legislations, in light of each Members' specificities.

5. Where the TRIPS Agreement does not settle certain issues or further defines specific terms, that is because Members so intended. From Brazil's perspective, acceptance of certain United States' arguments would add to Members' current obligations under TRIPS. The Panel should not concede to arguments that are based on extrapolations or expansive interpretations of the negotiated TRIPS Agreement text, and should make every effort to preserve the overall integrity of the Agreement, including its balance of rights and obligations and built-in flexibilities.

6. The fundamental and overarching tenet that permeates the TRIPS Agreement is Article 1.1, by which Members (i) are not obliged to implement in their law more extensive protection than is required by the TRIPS Agreement and (ii) are free to determine the appropriate method to implement the provisions of the TRIPS Agreement within their own legal system and practice. Along similar lines, Article 41.5 also establishes that under Part III there is no obligation to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general.

7. The concept of "enforcement" in the TRIPS Agreement is – to a considerable extent – to be understood as making available, for example, "fair and equitable" proceedings[1], which take place entirely within the ambit and rule of the national legislations of Members. Accordingly, Brazil is of the position that the Panel's task should be to analyze China's compliance with the minimum standards embodied in the TRIPS Agreement, refraining from applying its provisions without due consideration to the Agreement's overall context, object, purpose and flexibilities. Such crucial elements must be borne in mind, because the TRIPS Agreement itself recognizes that the treaty's implementation (i) does not take place in a void or in a single uniform legal, economic or social space[2], indicating that the implementation of TRIPS is to be shaped by specificities of national contexts, subject only to the test of consistency with the treaty provisions and (ii) is framed by the general principles, rules, disciplines, exceptions, limitations and flexibilities provided for by the Agreement. This is in keeping with the territorial nature of intellectual property rights and the sovereignty of States to legislate and enforce.

8. Therefore, in analysing China's measures *vis-à-vis* the TRIPS Agreement, the Panel should not lose sight of the fact that China (i) is not required to grant more extensive protection than the one foreseen in the Agreement, (ii) has discretionary authority to choose - in view of its legal system and practice - the appropriate method to implement the provisions of TRIPS and (iii) is neither obliged to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general; nor to distribute resources as between enforcement of intellectual property rights and the enforcement of law in general.

B. THE TRIPS AGREEMENT IS NOT ONLY ABOUT INTELLECTUAL PROPERTY RIGHTS PROTECTION AND ENFORCEMENT

9. The United States' arguments seem to contend that the TRIPS Agreement is all (or only) about protecting intellectual property rights. This is half true.

10. From a broader perspective, the TRIPS Agreement does not deal exclusively with intellectual property rights *protection*. Rather, it is built upon several balances, in which intellectual property rights protection is one of the elements. Indeed, provisions related to development, competition, transfer of technology, limitations and exceptions to rights, flexibilities, and a finely negotiated level of "legal permissiveness" in areas where Members retain their legislative policy space are also an integral part of the TRIPS Agreement.

11. One of the reasons for such architecture is the special nature of intellectual property rights. As a general rule, intellectual property is protected by a wide array of national laws, including civil, administrative and criminal procedures, in which Members' domestic legislation play a fundamental role. This is why, ever since the early stages of the negotiations, Brazil was of the position that enforcement measures under a new agreement should take the form of general principles[3] and "should take fully into account the specific nature of intellectual property rights, in that they constitute a matter of regulation by national legislations. (…) It should be accepted, as a principle, the recognition of countries' geographic, political, legal, and economic conditions, among others, under which their national enforcement system operates. In particular, the difficulties of developing countries in terms of fulfilling possible obligations should be recognised. Possible final commitments should not result in excessive material burden for the agencies responsible for the enforcement of intellectual property rights in those countries".[4]

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[1] TRIPS Agreement, Articles 41.2 and 42.
[2] TRIPS Agreement, Articles 7 and 8.
[3] China's first written submission, paragraph 93, footnote 97.
[4] Exhibit CHN-53.

12. In Brazil's standpoint, (i) the mandate under which the TRIPS Agreement was negotiated, (ii) the wide divergence of views during those negotiations as to what the new agreement should amount to, and (iii) the need to recognize countries' specificities and to preserve the singular nature of intellectual property rights protection led to the conception of a multilateral instrument that can be characterized as a "framework agreement".

13. It is for no other reason that the TRIPS Agreement – especially Part III - bears provisions that are not always strict or prescriptive. Instead, it has built-in flexibilities, which allow for Members to implement the Agreement through discretionary measures at the national level. Thus, the lack of definition of some concepts - such as "commercial scale", "copyright piracy" and "trademark counterfeiting" - referred to by the TRIPS Agreement was not unintentional. Such absence should be interpreted in light of the flexibilities permitted by the TRIPS Agreement. Being a "minimum standard" instrument, there is no obligation under TRIPS Agreement for a Member to adopt higher levels of protection.

14. In other words, Brazil considers that the claims made in the present dispute and the provisions involved therein – i.e., Articles 9.1, 14, 41.1, 46, 59 and 61 – should be analysed in light of the overarching principles and provisions governing the TRIPS Agreement. The specific obligations claimed by the United States are subsumed in the overall balance negotiated by Members and subject to the other aspects of intellectual property rights.

C. TRIPS AGREEMENT'S MINIMUM STANDARDS ON CRIMINAL THRESHOLDS

1. The scope of "commercial scale" in Article 61 of the TRIPS Agreement

15. Both the United States and China have identified two relevant elements for the definition of the expression "commercial scale", i.e. the agent's motivation (subjective element) and the amount or value of merchandises involved (objective element).

16. The United States' approach seems to be that if either of the elements is present in the context "of wilful trademark counterfeiting or copyright piracy", the conduct shall be subject to criminal procedures and penalties. China disagrees and seems to argue that the subjective aspect, i.e. the agent's motivation, is irrelevant.

17. Brazil would like to submit a third possible approach. First of all, it is useful to recall once again that the TRIPS Agreement provides minimum standards that Members shall adopt for the enforcement of intellectual property rights. In Brazil's opinion, both the subjective and objective elements are relevant for the determination of which conduct the TRIPS Agreement requires WTO Members to criminalise. The wording of Article 61 seems to leave little room for the argument that the agent's motivation alone shall suffice for its conduct to be considered "wilful trademark counterfeiting or copyright piracy *on a commercial scale*". On the one hand, the word "scale" inevitably invokes notions such as those of "order of magnitude" or "quantitative parameter". The provision should not be construed as demanding that WTO Members criminalise profit seeking infringement that involves the possession or sale of *any* amount of counterfeited or pirated goods. Both the text and the negotiating history of Article 61 suggest that profit seeking infringement of a non-significant magnitude is not part of the universe of conducts which are required to be criminalised pursuant to the TRIPS Agreement.

18. On the other hand, the expression "commercial scale" cannot be plausibly interpreted as including non-commercial, large-scale infringement of copyrights or trademarks either. The Panel should avoid embracing an interpretation of Article 61 that would disregard the term "commercial" and would not be faithful to the text of this provision. The word "commercial" cannot be properly

understood without due consideration to the idea of profit. The purpose of obtaining financial gains is the core of its meaning and should not be neglected.

19. In conclusion, Brazil considers that Article 61 establishes a two-pronged minimum standard, where both the subjective and objective elements must be factored in. What Article 61 requires is that WTO Members provide criminal procedures and penalties at least for wilful trademark and copyright infringements that involve profit seeking motivation and significant amounts of infringing goods. Neglecting either the word "commercial" or "scale" would not be supported by the "effectiveness principle", according to which meaning and effect must be given to all the terms of a treaty[5].

2. Remedies that provide a deterrent

20. Both the United States and China seem to restrict the debate about penalties to the appropriateness of thresholds for criminal prosecution and imprisonment. However, the text of Article 61 itself makes it clear that imprisonment is only one of the penalties that shall be made available and shall be able to deter illegal conduct.

21. Since the second sentence of Article 61 includes "monetary fines" as one of the possible remedies for the conduct WTO Members are required to criminalise, it could be argued that the key issue concerning low-level infringement, regardless of the formal definition the Member ascribes to the procedures involved (criminal or administrative), is whether the remedies available provide a deterrent against further infringement or not.

22. Brazil submits that, pursuant to this reasoning, the Panel should incorporate to its analysis an examination of whether first, the monetary fines and other remedies available under Chinese law for below-threshold wilful trademark counterfeiting and copyright piracy are able to discourage further infringement; and, second, the remedies other than imprisonment established for trademark counterfeiting and copyright piracy are similar to those applied for infractions of a comparable gravity.

23. The ultimate objective of Article 61, and Part III of the TRIPS Agreement, is that intellectual property rights be protected. If protection is afforded by remedies that are less costly and less socially disruptive than imprisonment, it would be nonsensical to require a Member to re-label its procedures and to consider that it is not in compliance simply because, according to its own legal system, certain WTO-prescribed remedies are available under provisions that are domestically characterized as administrative (and not criminal).

D. TRIPS AGREEMENT'S MINIMUM STANDARDS ON THE DISPOSAL OF INFRINGING GOODS

1. Principles of Article 46 incorporated by Article 59

24. In Brazil's view, Article 59, read together with Article 46, establishes the obligation that WTO Members grant their competent authorities the power to dispose of infringing goods outside the channels of commerce or order their destruction. The treaty does not establish that such authority has to be unconditional.

25. Further, it should be underscored that Article 46 indicates that harm to the right holder must be avoided. This provision should not be construed as requiring a WTO Member to ensure that absolutely no harm ever happens to the right holder following disposal of infringing goods. What it

[5] See, e.g., Appellate Body Report, *Japan – Alcoholic Beverages II*, WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R, p. 12, Panel Report, *US - Gasoline*, WT/DS2/R, p. 23.

requires is that infringing goods are disposed of in a manner that is commensurate to the objective of preventing harm to the right holder from arising.

26. Therefore, in addition to the disposal methods described in Article 46, first sentence, WTO Members are allowed to make use of an unspecified range of disposal options that can be authorized, provided that first, the disposal option be employed in a way that avoids harm to the right holder; and, second, "[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."

27. In light of the above, Brazil respectfully submits that WTO Members may allow their competent authorities to release infringing goods into the channels of commerce, provided that: (a) these authorities also have the authority to destroy or dispose of such goods outside the channels of commerce; (b) the authorities avoid harm to the right holder, irrespectively of disposing of the infringing goods into or outside the channels of commerce; and (c) the limitation set forth in Article 46, last sentence is observed.

2. Conditional authority to order the destruction of infringing goods

28. In this dispute, the United States seems to equal "authority to destroy" to "obligation to destroy" and yet defines "authority" as requiring a significant degree of discretion. Indeed, the United States' arguments with regard to this issue appear to be somewhat paradoxical. In general, the less discretion a public agent enjoys, the closer its authority will be to a legal obligation. Conversely, more discretion means the authority has more leeway to choose not to follow the prescribed conduct in light of specific circumstances.

29. Brazil notes, however, that "discretion" and "authority" are not synonyms nor is the former a precondition for the latter. Non-discretionary acts by public agents can also be regarded as derived from their authority under the law. From an administrative law perspective, discretionary and non-discretionary acts are equally within the scope of the public authority that ultimately stems from the Member's Constitution.

30. The facts presented by both parties seem to suggest that the competent Chinese agency has the authority, yet conditional, to order the destruction of seized infringing goods. In Brazil's view, even if the degree of discretion were minimal, the authority to destroy would still exist, provided that it is so established in the appropriate legal rules. The level of discretion enjoyed by competent authorities, along with possible conditions attached to the application of its powers, do not concern the existence of authority itself, but pertain to the way authority is exercised. Article 59 of TRIPS does not prescribe (i) which competent authorities must be entitled with the mentioned authority and (ii) how exactly such authority should be exercised. This is so because the Agreement left to the Members the necessary flexibility to determine how such a provision shall be implemented, in light of the respective national legislation and practice.

III. CONCLUSION

31. Brazil appreciates the opportunity to comment on some of the issues at stake in this proceeding, and hopes the viewpoints furthered in this submission may assist the Panel in its decision.

ANNEX C-5

ORAL STATEMENT BY BRAZIL

1. Brazil appreciates the opportunity to present this oral statement as a third party in the current proceedings. In its third party submission, Brazil stressed the systemic relevance of this dispute and presented its views on the importance of the overarching principles and flexibilities that govern the intellectual property protection regime under the WTO. In addition, Brazil's submission analysed issues relating to TRIPS' minimum standards on criminal thresholds and on the disposal of infringing goods.

2. Brazil's oral statement will address one aspect of the present dispute that was not dealt with in our written submission, i.e., the notion of "automatic and immediate protection of copyrights" allegedly mandated by the *Berne Convention for the Protection of Literary and Artistic Works*.

3. Before addressing the "automaticity" issue, allow me first to make a general remark concerning an observation made by the United States in its first written submission. In paragraph 195, the United States affirms that "copyright arises immediately upon a work's creation". It is the Brazilian view that such affirmation should be interpreted with caution, since it gives the false impression that copyright protection is unconditional and absolute and depends on one exclusive factor: the creation of a work. This is not so.

4. Copyright may *not* arise immediately upon a work's creation. Indeed, countries *can* - and some do - condition the granting of the copyright protection. Article 2.2 of the Berne Convention, for instance, allows national legislation to prescribe that protection will be granted upon *fixation* to some material form, rather than upon the *creation* of the work.

5. This caution note being registered, Brazil would like to focus its statement on the notion that - despite accruing "upon the creation of a work", understood with the caveat made before - such protection does not take place in the void, by an *automatic* application of the Berne Convention alone, irrespective of countries national legislation.

6. The United States purports that, according to Article 5(2) of the Berne Convention, a work would acquire copyright protection "immediately and automatically".[1] China, by its turn, does not dispute such a characterization. Rather, it complements that, under its Copyright Law, "*in full compliance with Berne Article 5(2)*, copyright vests *automatically* and is recognized without administrative formality".[2]

7. China has specifically based the notion of "automaticity" of rights, not upon the Berne Convention directly, but upon its own national law: "under Chinese law".[3] However, the United States references to *automaticity* and *immediateness* of rights are general in nature, paving the way for an interpretation that the Berne Convention provides for rights that are automatic and immediate, irrespective of national legislations.

8. Although Brazil would agree with the United States that protection of literary and artistic works under the Berne Convention are not to be conditioned by "formalities", Brazil cannot acquiesce

[1] United States' first written submission, para. 195.
[2] China's first written submission, para. 253, emphasis added.
[3] China's first written submission, paras. 237, 245.

to the view that the Berne Convention prescribes that copyrights shall arise "automatically" and "immediately", regardless of what countries' national legislation will rule on the matter.[4]

9. Brazil disagrees with such a characterization. The letter of the Convention and its negotiating history clearly evidence that the *principle of automatic protection*, as the World Intellectual Property Organization defines it, should be understood and limited to the fact that copyright protection is not conditional upon compliance with any formality[5], such as registration, deposit and the like.[6] The Berne Convention bears no such "automaticity". Actually, no form of the word "automatic" appears in any of its substantive articles.

10. Quite the opposite, in several opportunities in this same Organization and elsewhere the United States itself has firmly asserted that "automaticity" in intellectual property-related issues runs counter to the "foundational notion that intellectual property rights are territorial and that rights have to be established and asserted under the laws of the country where protection is being sought".[7] Consistent with this line, the Director of the United States Patent and Trademark Office has stated that

> "there is no such thing as an 'international copyright' that will automatically protect an author's works in countries around the world. Instead, copyright protection is 'territorial' in nature, which means that copyright protection depends on the national laws where protection is sought".[8]

11. Therefore, in Brazil's opinion, the Panel should not concur with the parties' interpretation of Berne Convention Article 5(2), to the extent they imply that there may be "automatic and immediate" rights accruing from the Convention independently of what national legislations may dispose. Equal caution, as previously indicated, should be used when dealing with the assertion that "copyright arises immediately upon a work's creation".[9]

12. This concludes Brazil's oral statement. We will be pleased to answer any questions the Panel may have.

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[4] United States' first written submission, paras. 195-225.

[5] See http://www.wipo.int/treaties/en/ip/berne/summary_berne.html#f2, last visited on 8 April 2008.

[6] See Handbook on Intellectual Property/WIPO, at http://www.wipo.int/about-ip/en/iprm/pdf/ch5.pdf#berne, last visited on 8 April 2008.

[7] See United States' intervention at the TRIPS Council in Special Session, document TN/IP/M/14.

[8] See http://www.uspto.gov/web/offices/dcom/olia/copyright/copyrightrefresher.htm, last visited on 8 April 2008.

[9] United States' first written submission, paras. 11 and 195.

ANNEX C - 6

EXECUTIVE SUMMARY OF THE THIRD PARTY SUBMISSION BY CANADA

I. INTRODUCTION

1. Canada is participating in this proceeding because of its role as a significant producer of intellectual property and because of its systemic interest in the interpretation of TRIPS. It is Canada's position that: (1) China's Criminal Law and its December 2004 and April 2007 judicial interpretations are inconsistent with TRIPS Articles 61 and 41.1; (2) Article 27 of China's Regulations for Customs Protection of Intellectual Property Rights and Article 30 of China's Implementing Measures are inconsistent with TRIPS Articles 46 and 59; and (3) China's measures denying copyright-related rights protection to works that have not been authorized for publication or distribution in China are inconsistent with TRIPS Articles 9.1, 14, 41.1 and 61.

A. THRESHOLDS FOR CRIMINAL PROCEDURES AND PENALTIES

1. First sentence of TRIPS Article 61

2. China's Criminal Law, as judicially interpreted, is inconsistent with the first sentence of TRIPS Article 61. It sets arbitrary thresholds that incorrectly assume that the term "commercial scale" means high-scale, industrial production. Given that the drafters of TRIPS did not use this term, it can be inferred that the term "commercial scale" has a broader meaning.

3. The term "commercial scale" relates to counterfeiting and piracy undertaken with a view to profiting. This interpretation gives meaning to both the words "commercial" and "scale". It recognizes that profit is the objective of commerce and can be achieved by reproducing or selling large quantities, or by reproducing or distributing small quantities with high margins, in many cases using laptop computers. Factory assembly-lines are not needed. China overlooks these economic realities by associating the term "commercial scale" with industrial-scale production.

4. The World Intellectual Property Organization has indicated that quantity and the will to make a profit are factors to be taken into consideration in determining whether counterfeiting or piracy is on a commercial scale. China's arbitrary quantitative thresholds confer no discretion on the authorities to make a qualitative determination based on the circumstances of each case.

5. A person who wilfully reproduces or distributes hundreds of counterfeit or pirated copies for thousands of dollars in sales revenue and profits would, by any objective measure, be infringing on a commercial scale, especially in China where annual Gross Domestic Product per capita is just US$2,500 and 57 million people earn less than US$125 per year. Yet Article 217 of China's Criminal Law, as judicially interpreted in April 2007, for example, only allows the Chinese authorities to apply criminal procedures and penalties where the illegal gains exceed RMB 30,000 (US$4,155), illegal business volume exceeds RMB 50,000 (US$6,925), more than 500 pirated copies have been reproduced and distributed, or there are undefined "other circumstances of a serious nature". A person caught with 499 pirated copies worth RMB 49,999 (US$6,924) –more money than most Chinese earn in a year – cannot be prosecuted in China.

6. As China's thresholds are meant to be applied cumulatively, the Chinese authorities would need to keep track of a person's inventories, identity and activities, and share information across Chinese jurisdictions. Knowing this, infringers may evade the law by keeping up to 499 pirated copies worth no more than RMB 49,999, in several locations or at different times. Thus China's thresholds may inadvertently facilitate wilful infringement on a massive scale.

7. Canada empathizes with China's concern about scarcity of enforcement resources, but the first sentence of TRIPS Article 61 does not go so far as to require Members to prosecute every case of wilful trademark counterfeiting and copyright piracy on a commercial scale. It does require Members at least to be in the position to prosecute such cases. The problem with China's thresholds is they totally preclude the Chinese authorities from ever being able to exercise prosecutorial discretion in a given case of wilful infringement on a commercial scale.

2. Second sentence of TRIPS Article 61

8. China's thresholds are inconsistent with the second sentence of TRIPS Article 61. Rather than deterring commercial-scale infringement, China's thresholds provide infringers clear parameters for committing wilful trademark counterfeiting or copyright piracy with immunity.

3. TRIPS Article 41

9. China's thresholds make it impossible for the Chinese authorities to apply criminal procedures and penalties in many cases of wilful counterfeiting and copyright piracy on a commercial scale. The fact that a plethora of counterfeit and pirated goods continues to be produced, reproduced and distributed in China, and exported from China, makes it clear that China does not provide effective action against wilful acts of infringement on a commercial scale and does not provide remedies that deter further infringements, contrary to TRIPS Article 41.1.

B. DISPOSAL OF CONFISCATED GOODS

1. TRIPS Article 59 and the first sentence of TRIPS Article 46

10. To meet the obligation of TRIPS Article 59, Members must give their competent authorities the powers set out in TRIPS Article 46 as soon as it has been established that the goods infringe intellectual property rights. Yet China's competent authority acquires the requisite powers only after other disposal options have been explored or, in some cases, not at all.

11. Article 27 of the Regulations of China for Customs Protection of Intellectual Property Rights and Article 30 of China's Implementing Measures establish a general hierarchy of requirements for the Chinese customs authority to dispose of infringing goods. At each step, the Chinese customs authority lacks the power to order the destruction of the infringing goods or their disposal outside the channels of commerce, or both.

12. In the case of infringing goods that could serve social welfare purposes, China's measures generally preclude the Chinese customs authority from ever having the power to order their destruction. Instead, China's measures generally require the Chinese customs authority to donate the goods to social welfare bodies, which might in turn sell the goods to raise proceeds for their social welfare activities and, in so doing, release the goods into the channels of commerce where they will harm the right holder.

13. In the case of other infringing goods, the Chinese customs authority only acquires the power to order their destruction after other disposal options harmful to the right holder have been exhausted. The Chinese customs authority must first offer the goods for sale to the right holder, failing which the Chinese customs authority may generally dispose of the goods by way of auction if the infringing feature can be easily removed. This puts the right holder in an impossible situation because purchasing the goods causes it financial harm and refusal to purchase them runs the risk that the goods will be released into the channels of commerce.

14. China has not demonstrated a constitutional impediment to conferring the power to order the destruction of infringing goods on its competent authorities from the outset. Also, China's measures do not empower competent authorities to order the disposal of infringing goods in a manner that will not harm the right holder, such as empowering them to give the infringing goods to the right holder for no charge.

2. TRIPS Article 59 and the fourth sentence of TRIPS Article 46

15. The TRIPS Article 46 prohibition on releasing counterfeit goods after simply removing the infringing feature directly and unambiguously relates to the disposal of infringing goods. As such, it is a principle of disposal of infringing goods that, by way of TRIPS Article 59, competent authorities must follow. Yet China's measures provide that, once the right holder refuses to purchase infringing goods that could not be used for a social welfare purpose, the Chinese customs authority must auction the goods if the infringing feature can easily be removed. The auction may proceed even if the right holder strenuously objects.

C. DENIAL OF COPYRIGHT-RELATED PROTECTION AND ENFORCEMENT

1. TRIPS Article 9.1

16. China's Copyright Law is inconsistent with Article 5(1) of the Berne Convention. Article 4 of China's Copyright Law expressly provides that "Works the publication and dissemination of which is prohibited by [Chinese] law shall not be protected by this Law". China admits that this refers to works, including those of the Berne Copyright Union, that the Chinese authorities find unconstitutional or immoral, and that these works are not protected in China.

17. Article 2 of China's Copyright Law provides that a foreigner's copyright under an international treaty between the foreigner's country and China shall be protected "in accordance with this Law" (i.e., China's Copyright Law). Clearly, China's commitments under the Berne Convention have no direct effect, but instead are available only to the extent provided for by China's Copyright Law. Thus Article 4 of China's Copyright Law seems to take precedence.

18. China's measures are inconsistent with Article 5(2) of the Berne Convention. China seems to have laid down in its national laws the administrative obligation for exporters or importers to obtain approval to publish and distribute the work in China such that, if not fulfilled, it will lead to the loss of copyright or copyright-related protection. In particular, Article 2 of China's Copyright Law provides copyright protection irrespective of publication to "Chinese citizens, legal entities or other organizations", not those from other countries.

2. TRIPS Article 14

19. For the same reasons, China's Copyright Law is also inconsistent with TRIPS Article 14.1 and 14.2 in relation to performances and sound recordings.

3. TRIPS Article 41.1

20. Given that China's Copyright Law does not apply to banned works, none of the enforcement procedures required under TRIPS Article 41.1 can apply.

4. TRIPS Article 61

21. By operation of Article 4 of China's Copyright Law, criminal procedures and penalties in cases of copyright piracy do not apply to banned foreign works. The right holder has neither civil nor criminal recourse.

II. CONCLUSION

22. Canada respectfully submits that the Chinese measures are inconsistent with TRIPS.

ANNEX C-7

ORAL STATEMENT BY CANADA

I. INTRODUCTION

1. Mr. Chairman, distinguished Members of the Panel, I would first like to express Canada's appreciation to the Panel and the Secretariat for their work in this dispute.

2. Canada will briefly address in its oral submission all three issues in dispute: China's criminal thresholds, disposal methods, and denial of copyright to prohibited works. These arguments are set out fully in Canada's written submission.

II. CRIMINAL THRESHOLDS

3. Regarding China's criminal thresholds, China and two third parties have contended that criminal law is the exclusive domain of sovereign states, and that TRIPS Article 1.1 provides Members with flexibility in implementing TRIPS. This is true, but beside the point. It is one thing to choose the appropriate method of implementing an obligation to which a sovereign state has agreed, and another to implement such obligation. Canada echoes the view best articulated by Korea that this dispute is not about discretion, but about deviation from a treaty obligation.

4. In Canada's view, the crux of this part of the dispute is the proper interpretation of the term "commercial scale" in TRIPS Article 61. China's criminal thresholds rest upon an assumption that the term relates to quantity – the quantity of illegal copies, illegal gains, and so forth. China has explained its view that "commercial scale" means industrial production; that is, it seems, large quantities such as one would find coming off a factory assembly-line.

5. China's interpretation of "commercial scale" is not tenable for at least two reasons.

(a) The drafters of TRIPS did not choose to use the term "industrial scale" or "industrial production". Evidently they meant something else.

(b) China's interpretation focuses on "scale" without regard for "commercial".

6. Canada shares the view of the United States and many of the third parties that the word "commercial" relates to the concept of striving for financial gain. Thus, the term "commercial scale" relates to infringement of such magnitude that the motive of the infringer is to carry on a profitable business. As the World Intellectual Property Organization has observed, infringement on a commercial scale cannot simply be determined by large quantities.[1] Profit can be achieved by producing and selling small quantities at high margins. This is especially true today with non-industrial, personal digital technology.

7. Indeed, there may be few illegal copies and/or only small gains but also non-quantitative indicia of wilful infringement for the purpose of profiting. Such indicia may include the use of the internet or other means of mass dissemination, the presence of equipment and input materials for the creation of additional copies, a previous history of infringement by the infringer, the involvement of organized crime, the marketing and soliciting of business, and so forth. In the circumstances, the existence of one or more of these qualitative factors, notwithstanding few copies or small gains, may convince the Chinese authorities that there is wilful infringement on a commercial scale. However, the authorities cannot prosecute.

[1] See Exhibit CHN-43.

8. Hypothetically, if China's interpretation of "commercial scale" were indeed correct and infringement on a "commercial scale" relates – the will to profit aside – simply to infringement in large quantities, as defined by China, China's thresholds would still be inconsistent with TRIPS Article 61. The thresholds are so high that even infringement in quantities that an objective observer would deem large is not subject to criminal procedures and penalties. For example, China does not consider the sale of 499 pirated videos worth over US$6,000 – which is more than twice as much as the average Chinese citizen earns in an entire year – to be sufficiently large scale.

9. As set out in the United States' first written submission, there are massive quantities of counterfeit and pirated goods available for purchase in China. This massive infringement is facilitated by China's thresholds, which create safe harbours for persons to carry out commercial-scale infringement with immunity from criminal procedures and penalties. Not only are these thresholds inconsistent with TRIPS Article 61, they are also inconsistent with the obligation of TRIPS Article 41.1 to effectively remedy and deter infringement.

III. DISPOSAL OF CONFISCATED GOODS

10. TRIPS Article 59, read with TRIPS Article 46, incorporates the requirement to give competent authorities (1) the power to order the disposal of goods outside the channels of commerce in a manner that avoids harm to the right holder; or (2) the power to order the destruction of the goods. China's competent authority lacks these powers in certain situations.

11. Where the goods could serve a social welfare purpose, China's competent authority is compelled to give them to a social welfare body. Where they cannot serve a social welfare purpose, the competent authority has two options: either it must sell the goods to the right holder or, if the infringing feature can be easily removed and an auction is feasible, it must auction them – even if the right holder objects. The competent authority can order their destruction only as a last resort when nobody wants to buy them or the infringing feature cannot be easily removed.

12. Besides destroying them, obvious ways to dispose of goods outside the channels of commerce without harming the right holder are to give them to the right holder or to recycle them. However, these are not options for China's competent authority for at least three reasons:

(a) Donating goods to social welfare bodies for their own use may provide assistance to those bodies. However, it also gives rise to the risk that these bodies will not use the goods themselves, but rather sell them, thereby releasing them into commerce. Indeed, the Chinese law identified in US Exhibit 59 expressly permits the social welfare recipient to sell the goods to raise income. Not only is the law on its face inconsistent with TRIPS, the Chinese have deemed it necessary in the case of at least one donation to establish a side agreement making the donation conditional on the social welfare body not releasing the goods into the channels of commerce (I refer to the donation to the Red Cross discussed in paragraph 165 of China's first written submission.). Unfortunately, once released into commerce these counterfeit goods will compete with the right holder's goods and undermine its reputation.

(b) China's competent authority's next option, namely selling the goods to the right holder, imposes an unjustified financial burden on the right holder.

(c) Selling the goods by way of auction or otherwise to third parties would, by definition, mean releasing them into the channels of commerce where, again, they will harm the right holder by competing with its legitimate goods.

13. Destroying the goods or giving them to the right holder would be more appropriate than any of these Chinese options and would meet the TRIPS requirement of not causing harm to the right holder.

14. Canada also observes that the fourth sentence of TRIPS Article 46 is a principle of disposal. Thus it is incorporated into TRIPS Article 59. In this regard, China has not demonstrated how the auctioning of counterfeit goods after removing the infringing feature is applied only in exceptional cases, as is required by TRIPS Article 46.

IV. DENIAL OF COPYRIGHT PROTECTION

15. Lastly, Canada agrees that Members can prohibit the publication and distribution of works. However, Members do not have a right to deny copyright protection to them. The problem with Article 4 of China's Copyright Law is that it denies copyright protection to prohibited works, contrary to TRIPS Article 9.1.

V. CONCLUSION

16. In conclusion, Mr. Chairman, Canada shares the view of the United States that China's measures do not conform with TRIPS and must be brought into conformity with it. I would be pleased to answer any questions that the Panel might have later.

ANNEX C-8

EXECUTIVE SUMMARY OF THE THIRD PARTY SUBMISSION BY THE EUROPEAN COMMUNITIES

I. INTRODUCTION

1. The European Communities makes this third party written submission because of its systemic interest in the correct interpretation of TRIPS Agreement and the DSU.

II. INTERPRETATION OF ARTICLE 61 TRIPS

2. The European Communities disagrees with a number of China's arguments relating to the interpretation of Article 61 TRIPS. The European Communities does not see any reason why the interpretation of Article 61 TRIPS should follow a different standard than the one which the DSU foresees in Article 3.2, 2nd sentence DSU for the interpretation the covered agreements. The European Communities notes that neither Article 61 TRIPS nor any other provision in the WTO Agreements provide for an exception to Article 3.2, 2nd sentence DSU. Nor is the European Communities aware of the existence of a customary rule of treaty interpretation that provides for a divergent interpretation standard when it comes to obligations relating to criminal procedures or penalties. The European Communities fails to see any relevance of China's references to the Hague Convention, the Brussels Convention, issues relating to inter-state cooperation on criminal matters within the United States, the Rome Statute of the International Criminal Court, UN Security Council Resolution 1373 or an ECJ judgment on the scope of the EC competence for determining the type and level of criminal penalties for the establishment of such a customary rule of treaty interpretation. None of these acts evidences a *general practice* or *opinio iuris* relating to treaty interpretation.

A. NO CONDITIONALITY OF THE OBLIGATION UNDER ARTICLE 61 TRIPS

3. Article 61 TRIPS explicitly leaves WTO Members flexibility with regard to *certain* obligations. Article 61, 2nd and 3rd sentences TRIPS, for example, enable WTO Members to provide for sufficiently deterrent imprisonment or monetary fines "consistently with the level of penalties applied for crimes of a corresponding gravity" and to provide for certain other remedies "in appropriate cases". Article 61, 1st sentence TRIPS, however, does not contain any such limitation when it comes to the definition of criminal activity. It unequivocally sets out that WTO 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". With regard to Article 1.1, 2nd sentence, TRIPS gives WTO Members flexibility in determining the appropriate *implementation method*, but does not limit the *scope* of TRIPS provisions by subjecting them, as China suggests, to Members' "priorities with respect to public order". The European Communities also fails to see how Article 41.5 TRIPS, which clarifies that Part III does not require dedicated judicial systems for IPR enforcement or any shifts of resource allocation, should subject Article 61 TRIPS to any of the conditions put forward by China. Even if the proper interpretation of Article 61 TRIPS came to the conclusion that the terms "on a commercial scale" required criminalising only a relatively narrow range of activity, nothing would support the conclusion that this obligation is subject to the potentially unlimited and unpredictable conditions proposed by China. The European Communities would like to highlight that all these conditions, i.e. China's commercial context and legal structure, its priorities concerning public order and its resource constraints, relate to factors that are internal to China. Similarly to the well established principle of international treaty law that "[a] party may not invoke the provisions of its internal law as a justification for its failure to perform a treaty" (Article 27 of the *Vienna Convention*), one cannot expect that the treaty obligations themselves are – absent any express provision to the contrary – conditioned upon such internal factors.

B. SUBSEQUENT PRACTICE

4. The draft EC proposal for a directive on criminal measures for IPR enforcement, as it presently stands, does not provide for any definition of what is "on a commercial scale".

III. INTERPRETATION OF ARTICLE 59, 1ST SENTENCE TRIPS IN CONNECTION WITH ARTICLE 46 TRIPS

5. In Article 46 TRIPS, the European Communities identifies the following principles relevant for the destruction or disposal of infringing goods:

(a) The goal of these remedies is "to create an effective deterrent to infringement".

(b) There shall not be "compensation of any sort" to the infringer.

(c) Authorities "shall have the authority" to order two remedies:

(i) Disposal "outside the channels of commerce": This must be achieved "in such a manner as to avoid any harm caused to the right holder"; or

(ii) Destruction (unless this is excluded by the constitution of the WTO Member).

(d) When considering whether to order any of these two remedies, authorities shall take into account "the need for proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties".

(e) When authorities choose not to order either of the two remedies, simply removing the unlawfully affixed trademark from counterfeit trademark goods is not sufficient to permit release of the goods into the channels of commerce, unless there is an exceptional case.

6. The European Communities disagrees with China's position that the fourth sentence of Article 46 is not incorporated into Article 59 and therefore does not apply to customs authorities. First, Article 59, 1st sentence refers to "the principles set out in Article 46" in their entirety, and not only to those contained in the first sentence of Article 46. Secondly, the European Communities is not persuaded by China's argument that Article 59, 2nd sentence constitutes a *lex specialis* for Custom's treatment of counterfeit trademark goods derogating the general provision of Article 46, 4th sentence.

7. The disposal must be "in such a manner as to avoid *any* harm caused to the right holder" (emphasis added). The use of the word "any" clearly suggests that even a slight degree of harm is too much.

IV. DENIAL OF COPYRIGHT PROTECTION

8. China acknowledges that Article 4.1 of its Copyright Law denies copyright protection for works with certain illegal ("unconstitutional or immoral", "reactionary, pornographic, or superstitious") content. The European Communities is not persuaded by China's legal argument that Article 17 of the Berne Convention allows the denial of copyright protection or limiting exclusive rights of copyright holders. Article 17 of the Berne Convention allows governments to control the dissemination of works, but does not exempt works from protection or limits exclusive rights of copyright holders. China's denial of copyright protection pursuant to Article 4.1 of its Copyright Law

is not permitted by Articles 2 and 2bis of the Berne Convention which allow exempting certain categories of works (e.g. official text of a legislative, administrative and legal nature) from protection. There is no provision allowing exempting works of "illegal content" from copyright protection. Nor is it covered by the provisions in the Berne Convention, such as Articles 9(2), 10 or 10bis, that provide for limited exceptions to certain *exclusive rights*, or by Article 13 TRIPS.

V. CONCLUSION

9. This dispute gives the Panel the opportunity to preserve the rights and obligations of the parties under the TRIPS Agreement by clarifying several TRIPS provisions. Part III of the TRIPS Agreement strikes a delicate balance between the need for "effective and appropriate means for the enforcement of trade-related intellectual property rights" and the respect for "differences in national legal systems". Therefore, it is imperative to carefully clarify this balance through a strict application of the customary rules of interpretation of public international law as required by Article 3.2, 2nd sentence DSU, and not through recourse to alleged "powerful default norms" or by subjecting obligations to what WTO Members may find "appropriate" or in line with their "priorities". The European Communities hopes that its comments are of assistance to the Panel in this task.

ANNEX C-9

EXECUTIVE SUMMARY OF THE ORAL STATEMENT BY THE EUROPEAN COMMUNITIES

I. INTERPRETATION OF ARTICLE 61 OF THE TRIPS AGREEMENT

1. The European Communities makes the following observations relating to the definition of trademark counterfeiting or copyright piracy "on a commercial scale".

2. With regard to the *ordinary meaning*, the term "on a commercial scale" has two elements. "Commercial" refers to matters "pertaining to, or bearing on commerce" or "likely to make a profit". "Scale" means a "relative magnitude or extent; degree, proportion". There is no indication that the "magnitude or extent", "degree" or "proportion" to which the term "scale" refers can only be assessed on the basis of "countable" elements, such as the amount of turnover or profit. The "scale" of an activity could also be determined through other elements indicating a certain degree or dimension, such as the circumstances surrounding the activity. Read together, the terms "commercial" and "scale" would therefore denote activities of such a dimension that they pertain to a business or to the generation of profits. The ordinary meaning of "on a commercial scale" does not limit the scope of Article 61 to activities that involve certain quantities – be it in value or numbers – of counterfeit or pirated goods.

3. Concerning the *context*, Article 61, 1st sentence contains, in contrast to the more flexible sentences 2, 3 and 4, the strict obligation – indicated by the use of the terms "shall" and "at least" – to provide for criminal enforcement in case of certain activities. There is no subsequent practice fulfilling the conditions of Article 31(3)(b) of the *Vienna Convention*. There is no EC legislation on criminal IPR enforcement defining "on a commercial scale". Directive 2004/48/EC on civil and administrative IPR enforcement defines "on a commercial scale" through other than quantifiable elements, i.e. as acts "carried out for direct or indirect economic or commercial advantage; this would normally exclude acts carried out by end-consumers acting in good faith".

4. As regards the *object and purpose*, Part III of the TRIPS Agreement aims at the provision of "effective and appropriate means for the enforcement of trade-related intellectual property rights" while respecting "differences in national legal systems". Article 61 reflects this balance. Its sentences 2, 3 and 4 emphasise flexibility, for example with regard to the level of imprisonment or the inclusion of certain other remedies. Article 61, 1st sentence, on the other hand, contains a hard-and-fast rule obliging WTO Members to provide for criminal enforcement against at least two types of IPR infringements. The purpose of Article 61, 1st sentence is to single out these two types of infringements because they have a particular potential of harming right holders. This purpose is reflected in the term "on a commercial scale". It refers to activities that tend to be particularly harmful because they pertain to a business or the generation of profits which means that they typically occur as part of a larger plan, repeatedly, systematically or in larger dimensions. Activities "on a commercial scale" are potentially more harmful than "occasional" infringements by private persons.

5. In the light of this object and purpose, the term "on a commercial scale" must comprise all activities with a particular potential of harm which results from them pertaining to a business or profit generation. Quantitative thresholds, for example based on the numbers or value of infringing goods, may capture "commercial scale" activities in some circumstances. There may be, however, other circumstances in which they do not. Japan gave the good example of a case in which a person sells a relatively small number of low value counterfeit products, but in which the professional organization of the activity, for example systematic cooperation with other persons, indicates a business dimension. In our view, this would be an activity which has a particularly high potential of harming right holders

because it is part of a business and which should therefore be considered "on a commercial scale". In order to capture all infringements "on a commercial scale", WTO Members would need to enable their criminal law enforcement authorities to take into account not only quantitative thresholds but also additional elements indicating the business dimension of the activity.

6. Given the clear interpretation result pursuant to Article 31 of the *Vienna Convention*, there is limited interest in recurring to *supplementary means of interpretation* within the meaning of *Article 32* of the *Vienna Convention*. The 1988 WIPO Memorandum confirms the above interpretation since it refers to both quantitative and non-quantitative factors and is clearly not meant to be exhaustive. It may be that some delegations suggested formulations such as "commercial" or "for commercial purposes" during the TRIPS negotiations, but the negotiating record does not tell *why* negotiators finally chose the term "on a commercial scale". The insertion of the term "scale" does not limit the scope of Article 61, 1st sentence to activities to be assessed on purely quantitative factors.

7. In sum, the term "on a commercial scale" denotes activities of such a dimension that they pertain to a business or to the generation of profits. Activities can have this business dimension even if they do not meet quantitative thresholds based on numbers or values of infringing goods. Additional factors can be indications of business organization or profit orientation.

II. INTERPRETATION OF ARTICLES 59 AND 46 OF THE TRIPS AGREEMENT

8. A core interpretation question raised by the second US claim is whether or to what extent the obligation in Article 59 permits WTO Members to subject the "authority to order the destruction or disposal of infringing goods" to conditions.

9. The *ordinary meaning* of the terms "shall have the authority to order" in Articles 59 and 46 is that customs authorities must have the power to avail themselves of these remedies. It does not clarify in which circumstances they must be able to do so.

10. From a *contextual* point of view, the language used in Article 44 ("judicial authorities shall have the authority to order …" – "Members are not obliged to accord such authority in respect of …") could indicate that WTO Members knew how to expressly qualify the obligation to provide a certain authority if they wanted to. Another example is the clause in Article 46 exempting WTO Members from the obligations to grant destruction authority if this is "contrary to existing constitutional requirements". One could argue that in the absence of such express qualifications, WTO Members should fully and unconditionally accord the authorities in question.

11. With regard to the *object and purpose*, Article 46 sets out that the goal of providing destruction and disposal authorities is "to create an effective deterrent to infringement". In the view of the European Communities, this purpose could be undermined if these remedies only existed in theory and customs authorities were effectively unable to order them. This could be the case if they were available only under overly restrictive conditions. In the end, this will be largely a question of degree involving factual assessments, such as the scope of discretion of customs authorities.

III. DENIAL OF COPYRIGHT PROTECTION

12. China's denial of copyright protection for works of "unconstitutional" content is inconsistent with Article 9.1 of the TRIPS Agreement in connection with Article 5(1) of the Berne Convention (1971) since it denies authors of the relevant works the exclusive rights granted by the TRIPS Agreement and the Berne Convention (1971).

13. Article 4.1 of China's Copyright Law could also be inconsistent with Article 9.1 of the TRIPS Agreement in connection with Article 5(2) of the Berne Convention (1971). This would be the case if

the enjoyment and exercise of copyright were contingent upon the dissemination approval by Chinese censorship authorities, i.e. a "formality".

14. The United States claims that such a nexus exists under Chinese law referring to the wording of both the Copyright Law and the censorship laws. China denies any link between the operation of Article 4.1 of the Copyright Law and the content review process and refers to instances in which copyright was allegedly enforced while content review was still pending. Without commenting upon these factual questions, the European Communities would be reticent to give such instances too much weight in the assessment of an "as such" claim that appears to be based on the plain wording of the Chinese *law*. If the copyright enforcement *practice* played a role in the assessment of the US claim, one would need to explore more systematically how decisions of the Chinese censorship administration affect Chinese copyright enforcement authorities.

ANNEX C-10

EXECUTIVE SUMMARY OF THE THIRD PARTY SUBMISSION BY JAPAN

I. THE MEANING OF "ON A COMMERCIAL SCALE" IN ARTICLE 61 TRIPS[1]

A. THE ORDINARY MEANING OF "COMMERCIAL SCALE" SUGGESTS AN ASSESSMENT OF A VARIETY OF QUANTITATIVE AND QUALITATIVE ELEMENTS

1. The starting point of an analysis under Article 31 of the Vienna Convention on the Law of Treaties ("VCLT") is still the *ordinary of the meaning* of the text.

1. Syntax and dictionary definitions

2. The term "commercial scale" consists of two parts: a *noun* ("scale"), and an *adjective* ("commercial"). The adjective "commercial" modifies the noun "scale".

3. The interpretation of the noun **"*scale*"** is relatively straightforward. By its dictionary meaning, the term "scale" denotes a certain relative magnitude, an indicator of graduated size or proportion.

4. The question then is when that "scale" becomes **"commercial"**. The Shorter Oxford English Dictionary (Fifth edition, 2002, p. 459) defines the English word "commercial" as "Engaged in commerce; of, pertaining to, or bearing on commerce . . . Interested in financial return rather than artistry; likely to make a profit; regarded as a mere matter of business". The OED further defines "commerce" as: "**1. a.** Exchange between men of the products of nature or art; buying and selling together; trading; exchange of merchandise".

5. The French versions of the TRIPS Agreement shed further light on the meaning of "commercial". The French version of Article 61 TRIPS refers to "une échelle commerciale". The French word "commercial" is defined by the Petit Robert, Dictionnaire de la Langue Française (ed. 2004), as "1. Qui a rapport au commerce", and "commerce" is: "1. Opération, activité d'achat et de revente (en l'état ou après transformation) d'un produit, d'une valeur ... commercialisation, distribution; achat, circulation, échange, négoce, vente." "Commerce" in French also has an "organisational" meaning and indicates the shop or sales point of a company: "3.Un commerce: point de vente tenu par un commerçant, fonds de commerce. => boutique ..."[2]

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[1] Article 61 TRIPS provides for a minimum obligation ("at least") for WTO Members to provide for criminal procedures and penalties for trademark counterfeiting and copyright piracy, whenever such counterfeiting or piracy reaches "a commercial scale". In this regard, Japan notes that China argues that the United States bears a "significantly higher burden" in advancing its Article 61 claim since it requires a Member to enact a criminal law that meets with specific international standards (China's first written submission, para.49). Japan does not agree with this statement of China. Japan believes that the United States bears a conventional burden to establish a *prima facie* case as it does in advancing other claims, for a WTO Member is required to comply with any obligation enshrined in the WTO Agreements as it is agreed in the text, regardless of whether the obligation relates to the Member's criminal law or not. In examining the TRIPS Article 61 claim advanced by the United States in this dispute, the Panel should discharge its task first by clarifying the meaning of the provision, including the meaning of the term "on a commercial scale", and thus by clarifying the specific obligation on which the WTO Members have agreed under the provision, and then by concluding whether China complies with the obligation or not.

[2] The Spanish definition of "comercial" resembles that of "commercial" in French.

6. In sum, the word "commercial" indicates certain qualitative elements. The term "scale" denotes a certain relative magnitude, an indicator of graduated size or proportion. The combined term "commercial scale" denotes that there must be a buying and selling of products, or some sort of market-based action (denoted by "commercial") and that these actions must be of certain level in some relative way (be of some "scale"). In addition, certain definitions of the word "commercial", particularly in French, suggest that some sort of organizational or representational element may be relevant as well. In other words, the combination of "commercial" (i.e., a transaction defined by buying and selling) and "scale" (i.e., the relative scale of a transaction) suggests that the numbers of infringing goods involved, the overall value of an offer or a transaction, or organizational elements, and thus the repetition of the action (repeated sales, repeated infringements), can each play a role in a finding that a certain infringement achieves "commercial scale".

2. Examples of "commercial" and "commercial scale" sales transactions

7. First, if trademark counterfeit goods are sold in a store, even in relatively small quantities at a time, this would logically constitute "commercial" activity. This is of course clear when that store is a grocery store that sells hundreds of tubes of toothpaste, dozens of bottles of beer and other similar goods. But consider also a small store with a beautiful showroom in which two counterfeit high-end luxury cars are offered for sale. Nobody would seriously dispute that the store is operating on a commercial scale. Indeed, the value of the goods (infringing or infringed) may be one reason to arrive at the presumption that this offer represents counterfeiting on a "commercial scale". Other factors, such as the professional organization needed to set up such a storefront and the operation of producing and selling these high-end luxury cars, render this presumption irrebuttable. Expressed differently, "scale" denotes a relative size or quantity, the assessment of which is further informed by the term "commercial", which covers additional, more qualitative elements. In these examples factors such as the organizational structure and the simple optics of the transaction (selling it in a store) all demonstrate the "commercial" nature of the scale.

8. Now consider a person on the street in Geneva who is found with five packets of counterfeit cigarettes that he is offering for sale to tourists passing by for, say, CHF 1,- per packet. Despite the relatively small number of products and the low value of the counterfeit items we can not immediately conclude that this person is not operating on a "commercial scale". Other questions need to be asked: did he happen to have found some cigarettes on the street and is trying to sell them? Do the cigarettes look as if they have been professionally counterfeited? Does he have a friend around the corner with dozens or hundreds more cigarette packs (*i.e.*, the organizational element)? What if the same person pulls open his coat and also has five counterfeit luxurious watches for sale, and offers a list of other products that one can custom-order from him?

9. If one encounters offers or transactions involving significant quantities of counterfeit goods, even of modest value, the likely conclusion is that this represents counterfeiting on a "commercial scale". Similarly, offers or transactions representing substantial value, even if covering only a few counterfeit items, will also amount to counterfeiting on a "commercial scale". However, as the above examples illustrate, these two instances do not exhaust the possibilities of commercial scale counterfeiting. Even much smaller quantities of goods, and smaller values involved can still represent "commercial scale" infringements because of additional circumstances (such as indications of a professional organization, or of easy repetition). Accordingly, while quantitative thresholds may identify many instances of "commercial scale" counterfeiting, mere quantification of "commercial scale" does not capture all instances of commercial scale counterfeiting, and when smaller quantities are at stake further – qualitative – elements may need to be considered.

3. Conclusion

10. It is clear that a mere quantitative standard cannot capture all counterfeit operations taking place on a "commercial scale". While "commercial scale" can justifiably be assumed in the case of high quantities, small quantities do not necessarily signify that an operation is not "commercial". We showed examples above of situations where despite small quantities, certain infringements can be considered as being on a "commercial scale". Thus, "commercial scale" suggests a test that, while accepting that higher quantities (volume, value) suggest "commercial scale", will also require to take into account the specific circumstances of each individual infringement, such as the organizational characteristics of the infringer, and so forth in order to establish whether such "commercial scale" is reached.

11. The examples above further indicate that a single quantitative standard generally applicable to any kind of infringing goods may not capture certain infringements "on a commercial scale" in light of the fact that the prices and the numbers of commercially-distributed goods are various in actual markets. For example, a quantitative standard that is low enough to effectively work in dealing with trademark counterfeit cars may be too high to be equally effective in dealing with trademark counterfeit toothpaste, whether or not the standard at issue is based on the number of infringing goods or revenue gained through selling goods. The meaning of the term "commercial scale" thus needs to be determined, taking into account relevant facts pertinent to infringing goods at issue.

B. PREPARATORY WORK CONFIRMS THAT VARIOUS QUANTITATIVE AND QUALITATIVE FACTORS CAN BE RELEVANT TO THE DETERMINATION OF "COMMERCIAL SCALE"

12. The term "commercial scale" appears almost immediately in the discussions on counterfeiting of the GATT Negotiating Group on trade-related aspects of intellectual property rights. Participants were reported to have referred to a WIPO document where the same term was used. This appears to have been a reference to a 1988 Memorandum prepared by WIPO's International Bureau, where the requirement of "commercial scale" was formulated both in respect of counterfeiting and of piracy. The Bureau Memorandum stated:

> "Commercial scale is a notion which will have to be applied taking into consideration the circumstance accompanying the manufacture. The quantity of the goods manufactured, the way in which they were, are or are intended to be used and the will to make profit are among the factors that the courts will have to take into consideration."

13. This definition confirms the interpretation of "commercial scale" as a notion that can only be determined on an *ad hoc* basis, taking into account a number of factors, such as quantity, organization and profit.

14. Thus, the preparatory work of the TRIPS Agreement offers further, albeit indirect, insight in what the drafters of Article 61 TRIPS might have had in mind. The WIPO International Bureau Memorandum confirms the interpretation derived from the ordinary meaning of the words that "commercial scale" entails an assessment of a variety of quantitative and qualitative elements taking into consideration the particular circumstances of each case and not a single-quantitative-threshold approach.

II. RELATIONSHIP BETWEEN CHINA'S QUANTITATIVE THRESHOLDS AND CERTAIN COMMERCIAL SCALE INFRINGEMENTS

15. China's Criminal Law and relevant judicial interpretations set a series of single, specific and fixed quantitative thresholds that determine whether criminal procedures and penalties are effectively available regardless of case-specific facts pertaining infringing goods at issue.

16. In view of above general interpretative observations, it appears that there are two main points to make with regard to China's current thresholds. First, the Panel should examine whether the thresholds established in China's Criminal Law are based on single quantitative thresholds that do not allow prosecutors to take into account all circumstances that may be relevant to a determination of commercial scale. Second, the Panel should examine whether comparison of these single quantitative thresholds to the actual market values of various trademarked goods demonstrates that the quantitative standards in China's Criminal Law are so high as to automatically exclude many instances of "commercial scale" trademark infringement. In light of the various prices and the numbers of goods distributed in a market, it is necessary to examine whether these single quantitative standards provide criminal procedures for infringements on a "commercial scale". Moreover, quantities of thresholds are considered to be substantial amounts, particularly if one takes into consideration that the value of the illegal business volume refers to the value of the counterfeit goods, rather than the retail value of the legitimate goods.

17. However, even if the thresholds were based on the value of the trademarked goods – as opposed to the value of the infringing product – many instances of "commercial scale" infringement could remain excluded. The example of cigarette sales discussed above is a case in point. In the case of a store selling cigarettes, such an assessment would begin with the quantities involved. Someone selling thousands of packets of cigarettes (the numbers needed for cigarettes to reach China's current "commercial scale" thresholds) is clearly operating a commercial scale business. However, even if a store offers substantially smaller quantities of counterfeit cigarettes (say, a few hundred packages of brand X), the organizational element (a store), or the relative frequency (regular supplies) would still point to "commercial scale".

18. In sum, any system based on a single quantitative standard by definition will run the risk of exempting certain "commercial scale" trademark infringements from prosecution and penalties, unless that quantitative threshold becomes so low as to be effectively meaningless. Such a single standard is bound to create a safety area for certain commercial scale infringements as demonstrated by the examples provided above. China's Criminal Law thresholds are problematic for a second reason as well. They do not seem to take into account that prices and value of goods vary widely from very low (*e.g.*, a packet of cigarettes) to very high (*e.g.*, a high-end luxury car). As a result of China's single value- or earnings-based thresholds, and the high level of such thresholds, a number of categories of counterfeit products can be automatically excluded from criminal prosecution and penalties.

ANNEX C-11

EXECUTIVE SUMMARY OF THE ORAL STATEMENT BY JAPAN

I. BURDEN OF PROOF AND SCOPE OF OBLIGATION

1. China has argued that the United States bears a "significantly higher burden" in advancing its Article 61 claim since it requires a Member to enact a criminal law that meets with specific international standards.[1] The burden of proof in WTO dispute settlement has generally been interpreted to require the complaining party to establish a prima facie case of violation. The burden then shifts to the responding party to show that in fact such a violation did not occur. Thus, what the United States would ordinarily have to show is a prima facie case that China's legal system does not "provide for criminal procedures and penalties to be applied at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale" and that the remedies required to be available in the second sentence of Article 61 are not available.

2. Whether Article 61 envisions a particular burden of proof must be determined through an interpretation of Article 61 pursuant to customary rules of treaty interpretation as laid down in the Vienna Convention on the Law of Treaties.

3. In this regard, Japan notes first of all that there is nothing in the ordinary meaning of Article 61 TRIPS, as read in its context and in light of the object and purpose of the agreement, that would suggest any particular burden of proof. Indeed, by its ordinary meaning, Article 61 TRIPS establishes an explicit standard for WTO Members to comply with. It provides that "Members shall provide for criminal procedures and penalties to be applied at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale. Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity" (our emphasis). WTO Members agreed to this standard and, indeed, agreed to make in particularly binding by using the word "shall" for both requirements set forth. Thus, the ordinary meaning of Article 61 in no way suggests any particular burden and, in fact, the language used suggests that the legal standard set forth is a strict one (demonstrated particularly by the words "shall" and "at least").

4. China's principal argument why Article 61 would require an especially "high" burden of proof, is that this provision relates to criminal law. In particular, China points to other international agreements that it argues show certain levels of deference to parties to the agreements in the area of criminal law. Japan fails to see how this would change the burden of proof or the particular obligation provided for under Article 61 TRIPS. Even if China is right that other treaties that set out international agreements concerning issues relating to a country's criminal laws impose only general obligations, affording extensive discretion regarding implementation[2], that some countries do so with regard to their state-level laws, and that international courts have been exceedingly reluctant to impose specific criminal standards on sovereign states[3], this only means that the parties to those treaties agreed so and does not in any way affect the expressly agreed obligation provided for in Article 61 TRIPS. Indeed, the customary rules of treaty interpretation as laid down in the Vienna Convention on the Law of Treaties nowhere provide that the approach to a certain issue in a particular treaty would in any way have bearing on the interpretation of a provision in another, entirely unrelated, treaty.

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[1] China's first written submission, para. 49.
[2] China's first written submission, para 55.
[3] China's first written submission, para. 58.

II. DEFINITION OF "COMMERCIAL SCALE" IN ARTICLE 61 OF TRIPS

A. THE ORDINARY MEANING OF "COMMERCIAL SCALE" AND ACTUAL EXAMPLES OF "COMMERCIAL SCALE" INFRINGEMENTS

5. China has suggested that the interpretation of the term "commercial scale" presented by the United States does not give sufficient weight to the term "scale". Its own definition, however, appears to replace the word "commercial" by "significant".[4] Japan agrees that it is important that sufficient weight is given to both words in the expression "commercial scale". As we have set out in our written submission, we believe that an interpretation of Article 61 TRIPS demonstrates that a variety of factors may have to be taken into account in order to determine whether an infringement achieves "commercial scale". As the interpretation laid out in Japan's written submission shows, Japan would certainly agree that when the "scale" of infringements is significant or large such infringements would usually be commercial. However, the examples of "commercial" activity that Japan presented in its written submission also show that "commercial scale" does not necessarily mean that quantities (values or volumes) have to be of any particular size and, indeed, that such quantities can be relatively small. Thus, Japan believes that the precise "quantitative level" that will constitute "commercial scale" can only be established taking into account a number of quantitative and qualitative factors.

6. Indeed, Japan has already noted that the word "scale" denotes a certain relative magnitude, an indicator of graduated size or proportion.[5] It does not simply equal "large" or "a lot". It is also important to note that the word "commercial" does not necessarily signify "significant" or "a significant magnitude of activity", as China suggests.[6] Instead, Article 61 TRIPS specifically uses the word "commercial", not "significant", or "substantial" or "large". The precise scale required is thus only defined by the word "commercial".

7. In this context, Japan would like to re-emphasize the ordinary meaning of the word "commercial". A review of the dictionary meaning of this word in English, French and Spanish shows that "commercial" denotes that there must be a buying and selling of products, or some sort of market-based action (denoted by "commercial"). Definitions of the word "commercial", particularly in French and Spanish, also suggest that some sort of organizational or representational element may be relevant. This confirms that it is not a particular value or a particular volume as such that makes something "commercial", but that a number of qualitative and quantitative factors together determine when the "scale" is such as to reach the level of "commercial".

8. In our written submission, we have shown that an examination of facts in light of the ordinary meaning of "commercial scale" shows that in circumstances where the quantities (volumes or values) involved are relatively high, "commercial scale" will usually be present. For example, someone offering for sale 500 bottles of laundry detergent is clearly operating on a commercial scale. Thus, certain minimum thresholds are an appropriate way to capture at least such presumed situations of commercial scale.

9. On the other hand, Japan has also explained that much smaller quantities (volumes or values) can still constitute "commercial scale" depending on the circumstances of the case. Thus, for example, when counterfeit goods are sold in a store, even relatively small quantities would likely constitute "commercial" scale.[7] Similarly, a street vendor, who is caught with just a few designer handbags that he is offering to passers-by, may also be considered to operate on a "commercial scale". Similarly, even when a shop offers for sale only one or a few of such bags, "commercial scale" can

[4] China's first written submission, para. 72.
[5] Japan's third party submission, para. 8.
[6] China's first written submission, para. 72.
[7] Japan's third party submission, para. 13.

nevertheless be presumed, based on the professional nature of the operation. Conversely, there are clearly circumstances where the number (volume) of goods alone, or the value of such goods, may not of themselves be sufficient to demonstrate the "commercial" nature of the "scale". However, in such cases, a more complete assessment of the circumstances could still lead to the conclusion that "commercial scale" is achieved.

B. THE NEGOTIATING HISTORY CONFIRMS THIS READING OF ARTICLE 61 TRIPS

10. In our written submission, we pointed to the discussion of the term "commercial scale" in the GATT Negotiating Group on trade-related aspects of intellectual property rights where reference was made to a WIPO document where the same term was used.[8]

11. Japan is glad to note that China appears to argue that this document confirms the need for an ad hoc, case-by-case assessment of whether "commercial scale" has been achieved.[9] However, even if one follows this line of interpretation, Japan would note that this does not mean that Members are provided full discretion as to whether they comply with the standard set out in Article 61. There is nothing that suggests that this standard is such that a WTO panel could not review whether a Member's decisions on when "commercial scale" is reached, or how to formulate its laws in a way that would cover situations where such "commercial scale" is reached, are consistent with the express requirement laid down in Article 61 TRIPS.

12. Japan also refers to China's position that the reference to the WIPO document, as well as use of the term in certain other context, would in some way suggest that "commercial scale" would be "akin to ongoing, industrial production".[10] Most importantly, the ordinary meaning of the word "commercial" confirms that Members did not agree to a standard of "industrial scale". If they would have, they would not have used the word "commercial" which, as we discussed above, is a broader term that refers to actions of buying and selling, organizational elements and the like. If Members had agreed upon a narrower standard, the text would have referred to "industrial scale" or "ongoing operations". The ordinary meaning of "commercial" is broader than that.

13. Japan also does not see how the use of the word "manufacturing" in the WIPO document would change this interpretation. The TRIPS Agreement deals with the use and sale of counterfeit products. When the WIPO committee discussed "commercial scale" in the particular context of "manufacturing", it in no way suggested that the counterfeit activity would have to take place on a scale "akin to ongoing, industrial production".[11] Instead, it merely happened to be discussing the concept of "commercial scale" in relation to manufacturing activity.

14. Indeed, elsewhere in the same document, the WIPO Committee takes a broader approach and refers to the concept of "commercial scale" as relevant in determining whether certain acts in the form of packaging, exportation and importation, the offering for sale, rental, lending or other distribution and other forms of transaction constitutes a form of counterfeiting under the WIPO Model Provisions.[12] Thus, other than China seems to suggest, there is no necessary link between "manufacturing" and "commercial scale".

[8] Japan's third party submission, para. 22; MTN.GNG/NG11/7, at para. 35 (21 June 1988).
[9] China's first written submission, para. 74.
[10] China's first written submission, para. 76.
[11] China's first written submission, para. 76.
[12] WIPO Committee of Experts on Measures Against Counterfeiting and Piracy, Model Provisions for National Laws, C&P/CE/2, circulated on 18-19 February 1998, para. 34.

III. RELEVANCE OF OTHER PRINCIPLES IN THE TRIPS AGREEMENT

15. Japan notes first of all that in the case of Article 61 TRIPS, Members have agreed on a specific standard that all WTO Members have to comply with. Indeed, Article 61 contains an explicit obligation ("shall") for Members to provide for criminal procedures and penalties "at least" when infringements reach a "commercial scale". Japan does not believe that the provisions referred to by China as context are such as to change the meaning of that expressly agreed provision or standard. Japan also notes that, based on the principle of effective treaty interpretation, such provisions in any event could not be read in a way that effectively reads out of the agreement the standard expressly agreed to by Members in Article 61.

A. ARTICLE 1.1 TRIPS

16. Japan begins by noting that almost the entire discussion of Article 1.1 TRIPS in China's first written submission (paragraphs 93 through 97) actually relates to the general negotiating history of the TRIPS Agreement – not to the specific interpretation of Article 1.1 TRIPS. Japan notes that it does not see how general statements made by certain Members with regard to the TRIPS Agreement as a whole would change the legal meaning of particular provisions of the TRIPS Agreement agreed to by all Members that provide expressly for certain obligations for WTO Members. In Japan's view, it is not appropriate to attribute this kind of broad relevance to general statements by certain Members in the negotiating history of an agreement in the interpretation of individual, express provisions of the agreement. It would not be right to change the meaning of language explicitly agreed to by all Members based on the general negotiating statements of some.

17. Japan also notes that a review of the full text of Article 1.1 TRIPS shows that, as a whole, it should be read to require Members to "give effect" to the express obligations elsewhere in the Agreement – *i.e.*, to implement the agreement into domestic law. Thus, Article 1.1 TRIPS reads, in full:

> "Members shall give effect to the provisions of this Agreement. Members may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement. Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice." (our emphasis)

18. In other words, Article 1.1 deals principally with the obligation for Members to put into effect – *i.e.*, implement in domestic law – the provisions of the TRIPS Agreement ("shall give effect to the provisions of this Agreement"). The first sentence of the provision provides the general obligation for Members to do so. The second sentence provides that Members may, but do not have to, go further in the protection they accord, as long as such additional protection is not required under the provisions of the Agreement. The third sentence – which China refers to – provides that "Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice". As the Appellate Body has explained, "Members, therefore, are free to determine how best to meet their obligations under the *TRIPS Agreement* within the context of their own legal system."[13] Yet this provision cannot be read in any way to imply that Members are free to modify their TRIPS obligations when they implement these obligations in their domestic legal systems.

[13] WTO Appellate Body, *India — Patents (US)*, at para. 59 (WT/DS50/AB/R, 16 January 1998).

19. Moreover, a different interpretation of Article 1.1 TRIPS – that is, one that would allow Members not to impose criminal procedures and penalties in certain cases of "commercial scale" counterfeiting – would run counter to the principle of effective treaty interpretation. If the last sentence in Article 1.1 TRIPS were read so as to change the explicit requirement in Article 61 TRIPS – to provide for criminal procedures and penalties – to a discretionary ability for Members to provide for other kinds of procedures and penalties (or indeed, for none at all), this would effectively read the express obligation contained in Article 61 TRIPS out of the Agreement.

B. ARTICLE 41.5 TRIPS

20. According to its terms, Article 41.5 is not concerned with the question of criminalization as such that concerns us here, i.e., with the question whether a WTO Member has properly established criminal procedures and penalties for commercial scale counterfeiting and piracy as envisaged by Article 61.[14] If anything, the principles of Article 41.5 TRIPS tell us something about the amount of resources a WTO Member has to devote to the enforcement of such criminal procedures and penalties for commercial scale counterfeiting, as opposed to the law in general. However, whatever its general principles mean, Article 41.5 cannot be read to contradict the specific requirement of Article 61 that certain infringements must be criminalized. Of course, whenever a particular behavior is criminalized, this means extra work for public prosecutors or criminal courts. The WTO Members who drafted Article 61 TRIPS were certainly aware of this, yet agreed nonetheless to criminalize certain forms of counterfeiting and piracy according to a common standard ("commercial scale").

21. China appears to suggest that in deciding when to criminalize willful trademark counterfeiting or copyright piracy) a WTO Member, ultimately, is free to assess whether such infringements pose a threat to its public order,[15] or how their criminalization would fit in with its treatment of other commercial offenses.[16] This approach ignores the explicit wording and obligation of Article 61, pursuant to which the critical question in deciding when to criminalize willful trademark counterfeiting (or copyright piracy) is whether such infringements have reached "commercial scale". This commonly defined minimum requirement is to be interpreted according to the principles of the Vienna Convention, not according to a WTO Member's unilateral appreciation of its public order requirements or of the relationship with other commercial behaviour which it has decided to criminalize (without their being any requirement in WTO law to do so).

IV. CONCLUSION

22. For the reasons set out above and in our written submission, Japan believes that the term "commercial scale" in Article 61 should be interpreted as imposing an obligation on Members to provide for criminal procedures and penalties not only in cases involving relatively large numbers of counterfeited goods or where such goods represent substantial value, but also in situations that, while involving smaller numbers of goods or lower value, still amount to counterfeiting on a commercial scale because of particular qualitative circumstances (e.g., organizational elements, frequency).

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[14] The issue presented in the present dispute is not whether China must put in place a judicial system for the enforcement of intellectual property rights which is distinct from that for the enforcement of law in general.

[15] *e.g.*, China's first written submission, para. 40, and para. 137.

[16] *e.g.*, China's first written submission, para. 62, or para. 117 and following.

ANNEX C–12

EXECUTIVE SUMMARY OF THE THIRD PARTY SUBMISSION BY KOREA

I. INTRODUCTION

1. This third party submission is presented by the Government of the Republic of Korea ("Korea") with respect to certain aspects of the first written submissions by the United States dated 30 January 2008 and by the People's Republic of China ("China") dated 12 March 2008, respectively, in *China – Measures Affecting the Protection and Enforcement of Intellectual Property Rights* (DS362).

2. Korea has systemic interests in the interpretation and application of various provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPs"). Therefore, Korea reserved its third party rights pursuant to Article 10.2 of the Understanding on Rules and Procedures Governing the Settlement of Dispute ("DSU"). Korea appreciates this opportunity to present its view to the Panel.

II. LEGAL ARGUEMENT

A. IN ORDER TO MAKE A PRIMA FACIE CASE, A MEMBER CLAIMING A VIOLATION MUST PRESENT FACTUAL EVIDENCE AND LEGAL ARGUMENTS SUFFICIENT TO DEMONSTRATE THE INCONSISTENCY OF THE CHALLENGED ACTION BY ANOTHER MEMBER WITH A RELEVANT WTO AGREEMENT

3. In Korea's view, satisfying prima facie standard is to present factual evidence and legal arguments "sufficient to demonstrate" the inconsistency of the challenged action with the defending Member's obligation. As a basic rule, a Member claiming a violation of a provision of WTO Agreements by another Member must "assert and prove its claim" by putting forward "evidence and legal argument sufficient to demonstrate" the inconsistency of the challenged action with the defending Member's obligations under the WTO Agreements.

4. Korea believes that the *prima facie* standard is particularly meaningful in this dispute as one of the main issues in this dispute is directed at the criminal enforcement mechanism and related activities of a Member state. As China stresses, an inquiry into and evaluation of the domestic criminal enforcement mechanism of a Member should be conducted in a careful manner, so as not to infringe upon national sovereignty of the Member.

5. In order to guarantee that the panel's review only proceeds with sufficient evidence and persuasive legal arguments and to avoid unnecessary controversies stemming from the examination of the criminal enforcement system of a Member, it is necessary for the Panel to strictly apply the *prima facie* threshold.

B. THE CRIMINAL PUNISHMENT THRESHOLD OF CHINA IS ARBITRARY AND THUS CHINA HAS FAILED TO IMPOSE EFFECTIVE CRIMINAL SANCTIONS ON WILLFUL TRADEMARK COUNTERFEITING AND COPYRIGHT PIRACY ON A "COMMERCIAL SCALE"

6. As China also acknowledges, in China criminal punishment is applied to counterfeiting and piracy when those acts are undertaken on a sufficient scale to exceed the minimum thresholds for criminal enforcement.[1] According to China, the purpose of having such a threshold in the criminal

[1] China's first written submission, para. 17.

system is "to express the point at which – in the considered judgment of China – proscribed activity threatens the public order and warrants the relatively costly and cumbersome intervention of the criminal system with its attendant implications for the rights of persons."[2] As such, the minimum thresholds for various IPR violation crimes vary, ranging from 30,000 RMB to 50,000 RMB measured in total volumes of sales. Any violation which comes below the applicable threshold, therefore, gets exempted from the criminal punishment.

7. Although China offers lengthy explanations on its criminal law system and threshold mechanism in its first written submission, it is not entirely clear why the Chinese government has come up with the particular amount of money as the minimum threshold for criminal enforcement. Korea believes that China has failed to show any compelling reason and rationale in introducing the minimum threshold system and adopting particular thresholds.

8. What is clear, on the other hand, is that a certain category of IPR violations, which could be potentially significant according to the US claims, simply go unpunished, at least criminally. All in all, the criminal threshold of China simply arbitrarily carves out some of the IPR crimes from the possibility of criminal sanction, which is not consistent with the TRIPs. Nowhere in the text of Article 61 can one find a legal basis that a Member can categorically exclude a certain group of violations based on its own judgment and evaluation.

9. Also, regarding the term of "commercial scale," Korea does not agree with the general proposition of China that a Member has full discretion in interpreting and applying the term "commercial scale". The term should be interpreted based on the principles of the 1969 Vienna Convention on the Law of Treaties and in Korea's opinion the interpretation offered by the United States seems to be more appropriate in this regard.

10. In Korea's view, the term simply appears to require a certain level of magnitude, and the level does not necessarily have to be "significant". Practically speaking, Korea believes, "a certain level of magnitude" in this context should mean operating or maintaining a business activity, large or small, for the purpose of gaining financial returns through IPR infringement in somewhat systematic fashion. In other words, as long as a person or an entity engages in a business activity by infringing IPR of another person or entity and realizes a financial return, he or it should be regarded as violating IPR in a "commercial scale," regardless of the alleged amount at issue.

11. Korea also notes that sanction from an administrative procedure is usually different, both in degree and quality, from sanction from the criminal procedure. Most of the time, criminal sanction carries more deterrence effect than an administrative procedure. So, the argument offered by China does not seem persuasive in this respect.

C. THE COMPLAINANT DOES NOT BEAR AN ESPECIALLY HIGH BURDEN OF PROOF IN ADVANCING THE CLAIM UNDER ARTICLE 61 OF TRIPS

12. It may well be true that a state party to a treaty has discretion in carrying out domestically an obligation under the treaty relating to criminal enforcement.[3] But the situation would be completely different if a certain category of crimes simply go unpunished, even if the relevant provision of the treaty explicitly requires the punishment. In this case, it is not about discretion any more, but about deviation from a treaty obligation.

13. In addition, under the current WTO dispute settlement regime, one could not argue that a complainant would have a higher burden of proof than in other cases, simply because the complainant

[2] China's first written submission,. para. 19.
[3] China's first written submission, paras. 52-57.

raises an issue about criminal enforcement. As far as Korea is aware, the TRIPs and the DSU do not differentiate a standard of burden of proof depending on the nature of claims.

14. Furthermore, in addressing this issue, the rationale or explanation offered by China with respect to the enactment of the legislation and regulation at issue should not be controlling. For instance, China cannot attempt to justify its alleged violation, if there is any, based on such an argument as "Chinese criminal law typically employs threshold system"[4] or "it is necessary to adopt a threshold system in China."[5]

15. Instead, what should be determinative in this inquiry is whether the challenged Chinese legislation and regulation indeed constitute good faith implementation of Article 61 of the TRIPs and whether that legislation and regulation fully carry out the obligation under the provision.

III. CONCLUSION

16. Korea appreciates the opportunity to participate in these proceedings, and to present its views to the Panel.

[4] China's first written submission, para. 19.
[5] China's first written submission, para. 19.

ANNEX C-13

ORAL STATEMENT BY KOREA

1. The Republic of Korea ("Korea") appreciates this opportunity to present its views to the Panel as a third party in this important dispute. Through this statement, Korea provides an overview of the key issues included in Korea's third party submission dated March 26, 2008.

I. IN ORDER TO MAKE A PRIMA FACIE CASE, A MEMBER CLAIMING A VIOLATION MUST PRESENT FACTUAL EVIDENCE AND LEGAL ARGUMENTS SUFFICIENT TO DEMONSTRATE THE INCONSISTENCY OF THE CHALLENGED ACTION BY ANOTHER MEMBER WITH A RELEVANT WTO AGREEMENT

2. In Korea's view, satisfying prima facie standard is to present factual evidence and legal arguments "sufficient to demonstrate" the inconsistency of the challenged action with the defending Member's obligation. Korea believes that the prima facie standard is particularly meaningful in this dispute as one of the main issues in this dispute is directed at the criminal enforcement mechanism and related activities of a Member state. As China stresses, an inquiry into and evaluation of the domestic criminal enforcement mechanism of a Member should be conducted in a careful manner, so as not to infringe upon national sovereignty of the Member.

3. In order to guarantee that the panel's review only proceeds with sufficient evidence and persuasive legal arguments and to avoid unnecessary controversies stemming from the examination of the criminal enforcement system of a Member, it is necessary for the Panel to strictly apply the *prima facie* threshold.

II. THE CRIMINAL PUNISHMENT THRESHOLD OF CHINA IS ARBITRARY AND THUS CHINA HAS FAILED TO IMPOSE EFFECTIVE CRIMINAL SANCTIONS ON WILLFUL TRADEMARK COUNTERFEITING AND COPYRIGHT PIRACY ON A "COMMERCIAL SCALE"

4. As China also acknowledges, in China criminal punishment is applied to counterfeiting and piracy when those acts are undertaken on a sufficient scale to exceed the minimum thresholds for criminal enforcement. Although China offers lengthy explanations on its criminal law system and threshold mechanism in its First Written Submission, it is not entirely clear why the Chinese government has come up with the particular amount of money as the minimum threshold for criminal enforcement.

5. What is clear, on the other hand, is that a certain category of IPR violations, which could be potentially significant according to the U.S. claims, simply go unpunished, at least criminally. All in all, the criminal threshold of China simply arbitrarily carves out some of the IPR crimes from the possibility of criminal sanction, which is not consistent with the Article 61 of the TRIPs.

6. Also, regarding the term of "commercial scale," in Korea's view the term simply appears to require a certain level of magnitude, and the level does not necessarily have to be "significant." Practically speaking, Korea believes, "a certain level of magnitude" in this context should mean operating or maintaining a business activity, large or small, for the purpose of gaining financial returns through IPR infringement in somewhat systematic fashion. In other words, as long as a person or entity engages in a business activity by infringing IPR of another person or entity and realizes a financial return, he or it should be regarded as violating IPR in a "commercial scale," regardless of the alleged amount at issue.

7. Korea also notes that sanction from an administrative procedure is usually different, both in degree and quality, from sanction from the criminal procedure. Most of the time, criminal sanction carries more deterrence effect than an administrative procedure. So, the argument offered by China does not seem persuasive in this respect.

III. THE COMPLAINANT DOES NOT BEAR AN ESPECIALLY HIGH BURDEN OF PROOF IN ADVANCING THE CLAIM UNDER ARTICLE 61 OF TRIPS

8. Under the current WTO dispute settlement regime, one could not argue that a complainant would have a higher burden of proof than in other cases, simply because the complainant raises an issue about criminal enforcement. As far as Korea is aware, the TRIPs and the DSU do not differentiate a standard of burden of proof depending on the nature of claims.

9. Furthermore, in addressing this issue, the rationale or explanation offered by China with respect to the enactment of the legislation and regulation at issue should not be controlling. For instance, China cannot attempt to justify its alleged violation, if there is any, by resorting to such an argument as "Chinese criminal law typically employs threshold system" or "it is necessary to adopt a threshold system in China."

10. Instead, what should be determinative in this inquiry is whether the challenged Chinese legislation and regulation indeed constitute good faith implementation of Article 61 of the TRIPs and whether that legislation and regulation fully carry out the obligation under the provision.

11. Korea appreciates the opportunity to participate in these proceedings, and to present its views to the Panel.

ANNEX C-14

THIRD PARTY SUBMISSION BY MEXICO

I. INTRODUCTION

1. The Government of Mexico appreciates this opportunity to present its views in this proceeding. Mexico is participating in this dispute as a third party because Mexican companies have been harmed by China's failure to properly implement its obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement").

2. Mexico notes that there are disagreements between the United States of America ("United States") and China regarding the precise content of the pertinent Chinese laws and policies at issue. Mindful of these disagreements, Mexico will focus its comments on the United States' claim under Article 61 of the TRIPS Agreement concerning the thresholds for criminal penalties and procedures. However, Mexico reserves its right to comment on the other claims of the United States in this dispute.

II. BURDEN OF PROOF

3. At paragraphs 49-59 of its first written submission, China argues that the United States bears "an especially high burden of proof in advancing the claim that China fails to meet its Article 61 obligation". Mexico disagrees. In this case, the normal burden of proof, whereby the complainant must present a prima facie case with respect to each of its claims, applies.

4. The points raised by China regarding the character of measures governed by Article 61 may be helpful in understanding the context of that provision within the TRIPS Agreement and, therefore, in interpreting its meaning. However, they do not, as argued by China, justify a "significantly higher burden than [the United States, as the complainant] would normally encounter".

III. THRESHOLDS FOR CRIMINAL PENALTIES AND PROCEDURES

5. As part of its defence to the United States' claim under Article 61 of the TRIPS Agreement, China has discussed, among other subjects, the need for the exercise of prosecutorial discretion and the associated issue of the allocation of finite government resources to criminal enforcement. Because the United States' challenge under Article 61 is limited to the Chinese laws pertaining to criminal penalties and procedures, Mexico will restrict its comments to this issue. The prosecutorial discretion and the allocation of resources with respect to the actual application of these laws and regulations are not issues before this Panel.

6. The United States claims that China's criminal laws maintain "safe harbors" that allow commercial-scale counterfeiting and piracy without the possibility of criminal prosecution or conviction for those acts. The laws establish safe harbors by prohibiting criminal prosecution or penalties for piracy and counterfeiting unless a case meets specific quantitative or value thresholds set out in China's laws. According to the United States, these thresholds provide counterfeiters or pirates with a clear roadmap for operating without fear of criminal sanctions for commercial-scale IPR infringement.[1]

7. China counters that the United States misunderstands the applicable laws and that China has fully provided for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale.

[1] United States' first written submission, paragraphs 4-5.

8. The central issue raised in this claim is the meaning of the term "commercial scale". The United States bases its claim on the following interpretation:

> "the concept of 'commercial scale' extends… 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".[2]

9. China disagrees with this interpretation, arguing *inter alia* that:

> "the United States asserts that if transactions are undertaken for a commercial purpose, they are necessarily of 'commercial scale.' This reads the concept of 'scale' completely out of the definition. In effect, the United States has suggested that the Panel read 'commercial scale' to mean 'commercial purpose'."[3]

China argues that "commercial scale" refers to a "significant magnitude of activity"[4] and "sustainable commercial enterprise".[5]

10. Mexico agrees with the United States that the concept of "commercial scale" extends 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. In other words, Mexico understands the term "commercial scale" to be intended to encompass activities that go beyond casual or occasional infringements that are not made for the purpose of generating revenue. Nonetheless, in Mexico's view, even under China's interpretation of "commercial scale", Chinese law does not comply with Article 61 of the TRIPS Agreement. By virtue of the "safe harbors" described by the United States, Chinese law does not "provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy" even for instances that constitute a "significant magnitude of activity" or a "sustainable commercial enterprise".

11. China summarizes the thresholds for its criminal procedures as follows:

> "In summary, under Chinese law, the affixation of a counterfeited registered trademark is a crime if the volume of illegal business is at least RMB50,000 (about $6,925) or if the illegal gains (profits) are at least RMB30,000 (about $4,155) (Art. 213); the sale of goods bearing such a trademark is a crime if the volume of sales is at least RMB50,000 (Art. 214); and the production or sale of such trademarks is a crime if the illegal business volume is at least RMB50,000, if the illegal gains are at least RMB30,000, or if there are at least 20,000 infringing pieces of trademark items (Art. 215).
>
> The unlicensed reproduction and/or distribution of various works is a crime if any of the following thresholds are met: the illegal gains are at least RMB30,000, the illegal business volume is at least RMB50,000, or there are at least 500 infringing copies (Art. 217); and the sale of pirated copies is a crime if the illegal gains are at least RMB100,000 (about $13,850) (Art. 218)."[6]

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[2] United States' first written submission, paragraph 110. The United States presents two activities that fall within the meaning of "commercial scale" but clarifies that "it is the former activity that forms the focus of this submission".

[3] China's first written submission, paragraph 67.

[4] China's first written submission, paragraphs 4, 61-62, 64, 72 and 117.

[5] China's first written submission, paragraph 133.

[6] China's first written submission, paragraphs 20-21.

12. The United States has demonstrated in its first submission and in its supporting exhibits that a considerable number of operations exist in China that are under these thresholds. This is prima facie evidence that such operations are commercially sustainable. Moreover, although they are small, they are clearly "significant".

13. Mexico agrees with China that national governments should have broad discretion in establishing and applying their respective criminal procedures, and that the TRIPS Agreement does not require a uniform approach to such matters. Nonetheless, the United States has presented evidence that, by virtue of a combination of factors – the levels at which the thresholds for prosecution are set, the manner in which the values are calculated, and the complete exception ("safe harbor") for persons operating under the thresholds – Chinese legislation seems to have the effect of encouraging, rather than discouraging, counterfeiting of trademarks and piracy of copyrights.

14. This situation is possible because persons are permitted to engage in trademark counterfeiting and copyright piracy on a continuing basis, secure in the knowledge that they can avoid prosecution simply by limiting their commercial activities to certain levels. Especially in the context of how copyright piracy is carried out in China – with large quantities of infringing articles distributed through many small establishments – Chinese law does not appear to provide for criminal penalties to be applied in cases of copyright piracy on a commercial scale within the meaning of the first sentence of Article 61.

IV. CONCLUSION

15. The Government of Mexico appreciates the opportunity to participate in this proceeding as a third party and to submit its views on these important legal issues relating to China's compliance with Article 61 of the TRIPS Agreement. Mexico will closely follow developments in this matter and stands ready to answer any questions that the Panel may have.

ANNEX C-15

ORAL STATEMENT BY MEXICO

I. INTRODUCTION

1. Mr Chairman and members of the Panel, Mexico will address issues that are before this Panel relating to the interpretation of Article 61 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement). Specifically, Mexico will address the appropriate interpretation of the term "commercial scale" and why the thresholds for criminal procedures and penalties under Chinese law are inconsistent with China's obligations under Article 61.

II. INTERPRETATION OF "COMMERCIAL SCALE"

2. 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." By virtue of this provision, Members are required to have in place criminal procedures and penalties that *as a minimum* must apply to the *wilful* trademark counterfeiting or copyright piracy that take place on a *commercial scale*. In short, Article 61 requires members to criminalize targeted activities that take place on a commercial scale.

3. At issue in this dispute is whether, through the setting of its quantitative thresholds for criminal procedures and penalties, China has stopped criminalizing the activities targeted under Article 61. As China summarizes in paragraph 60 of its first written submission, "[t]he core of the dispute between the United States and China is the meaning and scope of 'commercial scale'". However, what China attempts to do in its first written submission is to provide an interpretation of "commercial scale" that *per se* excludes certain commercially-oriented activities and wilful trademark counterfeiting and copyright piracy from criminal procedures and penalties.

4. China argues that "commercial scale" refers to a "significant magnitude of activity"[1] and "sustainable commercial enterprise".[2] The United States, on the contrary, argues that:

> "the concept of 'commercial scale' extends … 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"[3]

5. These diverging interpretations lead to very different implications. China takes a narrow approach to the interpretation of "commercial scale", while the United States takes a broader approach. Mexico also acknowledges the interpretations of Canada[4], Korea[5] and Brazil[6] that the term "commercial scale" invokes the notion of the magnitude of profitability sought. In other words, it applies to activities that are meaningful and done in pursuit of financial gain. However, as Korea points out, it is unclear why the scope of the term should be narrowed, as China argues, to a "significant magnitude of activity".[7]

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[1] China's first written submission, paragraphs 4, 61-62, 64, 72 and 117.
[2] China's first written submission, paragraph 133.
[3] United States' first written submission, paragraph 110.
[4] Canada's third party submission, paragraph 5.
[5] Korea's third party submission, paragraph 26.
[6] Brazil's third party submission, paragraph 36.
[7] Korea's third party submission, paragraphs 26 and 30.

6. Requiring that activities be meaningful and, at the same time, done in pursuit of financial gain would not capture casual and individual instances of trademark counterfeiting or copyright piracy. In paragraph 15 of its written submission, Japan provides a useful example of a street vendor selling purses in Geneva who contributes to the chain of trademark infringement even though he or she is operating on a small scale. Such activity is clearly meaningful in the sense that it contributes to the chain of infringement. As the purpose of Article 61 is to deter wilful trademark counterfeiting or copyright piracy through the use of criminal procedures and penalties, it would make little sense to require Members to restrict only activities of a "significant magnitude".

7. The example above helps to better understand what could be an alternative, not to mention a better or correct interpretation of the concept "commercial scale". Likewise, "[i]n accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose", as the Vienna Convention on the Law of Treaties requires, it should be noted that the word "scale" is not necessarily subject to conditions of magnitude, but rather, to "quality" (same quality).[8] In this regard no obligation is imposed on Members with respect to wilful counterfeiting of trademarks or piracy of copyrights – at least not under Article 61 of the TRIPS Agreement – unless such acts are done commercially (i.e. on a commercial scale).

8. China also argues that it is permissible to interpret the term "commercial scale" to be limited to the activities of manufacturing or industrial production, and not retail sales.[9] Here once again, China is attempting to narrow the scope of the term "commercial scale".

9. Mexico agrees that the main characteristic of "commercial scale" is the financial gain or profit, regardless of the role of the infringer in the distribution of the illicit products. In paragraph 5 of its written submission, Canada clearly sets out why China's interpretation is problematic:

> "Indeed, for the commercial infringer, as for any other person carrying out a business, profitability can be achieved by reproducing or selling large quantities, or by reproducing or distributing small quantities with high margins. Professional infringers can accomplish low-overhead and high-margin mass-production and distribution from their homes using their laptop computers; factory assembly-lines are not needed. By associating the term "commercial scale" with industrial-scale production, China overlooks these economic realities."

10. Mexico agrees with Canada's arguments regarding Members' discretion to prosecute trivial cases.[10] As long as Members have in place the necessary criminal procedures and penalties to provide the required deterrent effect they maintain the ability to exercise prosecutorial discretion when the case so merits. But China has taken an alternative approach by establishing the threshold for wilful trademark counterfeiting and copyright piracy so as to outright exclude certain commercially-oriented activities from sanctions and thereby prevent Chinese officials from exercising any discretion.

III. THE DETERRENT EFFECT OF THE CRIMINAL PROCEDURES AND PENALTIES

11. The obligation in the first sentence of Article 61 must be interpreted in the light of its context, which includes the second sentence of that Article. The second sentence reads in part "[r]emedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent … ".

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[8] See: Diccionario de la Lengua Española. Real Academia Española: **2.** f. Sucesión ordenada de valores distintos de una misma cualidad [Ordered succession of different values of one and the same quality]. *Escala de colores, de dureza*.

[9] China's first written submission, paragraphs 73-78 and 133.

[10] Canada's third party submission, paragraph 11.

Thus, deterrence of wilful trademark counterfeiting or copyright piracy on a commercial scale is an important purpose of Article 61 and of the TRIPS Agreement as a whole.

12. In Mexico's view, China's interpretation of the term "commercial scale" inherently prevents its criminal procedures and penalties from having as an object the effective deterrence of wilful trademark counterfeiting and copyright piracy because the thresholds exclude a significant amount of such activity. As such, the interpretation is inconsistent with a proper interpretation of the term "commercial scale" in its context and in the light of the object and purpose of the TRIPS Agreement as required under Article 31 of the Vienna Convention.

13. Mexico agrees with the United States[11], Korea[12] and Canada[13] that China's Criminal Law establishes thresholds that are arbitrary. China's criminal laws and procedures do not effectively deter wilful trademark counterfeiting or copyright piracy because such activities take place on a level that is well below what China considers to be "commercial scale". It is not simply a matter of China failing to prosecute trivial cases of wilful trademark counterfeiting or copyright piracy. Rather, China has arbitrarily set thresholds that do not even permit the initiation of prosecutions against such activities.

14. Canada highlights how arbitrary and ineffective these thresholds are by linking them to the annual Gross Domestic Product (GDP) per capita. For example, Article 213 of the *Criminal Law of the People's Republic of China* establishes as the threshold for the crime of counterfeiting registered trademarks a volume of illegal business of at least RMB50,000 (approximately US$6,925) or illegal gains of at least RMB30,000 (approximately US$4,155); and yet, as Canada points out, China's GDP per capita is only the equivalent of US$2,500 and 57 million people earn less than US$125 per year. In short, when a purveyor of goods with counterfeited registered trademarks has access to labour forces whose income can be as low as US$125 a year, then that purveyor could mount a substantial counterfeiting operation that would not meet the US$6,935 threshold for illegal business activity. It also means that in a region where the average income may only be US$2,500, people have an incentive to participate in the counterfeit goods industry as they only need to make less than US$4,155 a year to fly under the radar of the Chinese administration. In short, people could make a full-time living off counterfeit goods without earning enough to allow the Chinese authorities to initiate prosecutions. As stated by Mexico in its third party submission, the Chinese law seems to have the effect of encouraging, rather than discouraging, counterfeiting of trademarks and copyright piracy.

IV. CONCLUSION

15. Mr Chairman and members of the Panel, the Government of Mexico appreciates the opportunity to participate in this proceeding as a third party and to submit its views on these important legal issues relating to China's compliance with Article 61 of the TRIPS Agreement.

16. Mexico looks forward to closely monitoring future developments in this dispute and would be pleased to answer any questions that the Panel may have.

[11] United States' first written submission, paragraph 151.
[12] Korea's third party submission, paragraphs 19-20.
[13] Canada's third party submission, paragraphs 3-4.

ANNEX C-16

EXECUTIVE SUMMARY OF THE THIRD PARTY SUBMISSION BY CHINESE TAIPEI

1. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (hereinafter referred to as "TPKM"), as a third party in this proceeding, makes this submission because it has a systemic interest in the correct interpretation of the TRIPS Agreement.

2. The submission can be divided into two parts. In the first, we address some general principles that the panel should observe while making an objective assessment of the dispute. In particular, we provide the panel with references to prior WTO jurisprudence. Then, we submit our views on specific, relevant provisions and measures at issue.

I. THE TRIPS AGREEMENT IS A MINIMUM STANDARDS AGREEMENT

3. Article 1.1 of the TRIPS Agreement prescribes the minimum required of Members by the TRIPS Agreement to protect intellectual property rights, allowing them to go beyond this minimum in pursuit of more stringent standards of protection if they so wish. Members must take the necessary legal and administrative action to ensure the rights and obligations contained in the Agreement are put into effect, but they are free to determine for themselves how best to implement their obligations under the Agreement within the context of their own legal systems. Members are not to enact measures of protection, however, that would negate such rights and obligations.

II. THE PANEL'S FUNCTION AND REVIEW OF MEMBERS' DOMESTIC LEGISLATION

4. In accordance with Article 11 of the DSU, a panel should make an objective assessment of the matter before it, including an objective assessment of the facts of the case and of the applicability of and conformity with the relevant covered Agreements. It should also make such other findings as will assist the DSB in making the recommendations or in giving the rulings provided for in the covered Agreements.

5. As noted by the Appellate Body in *India – Patent (US)* and by the panel in *US – Section 301 Trade Act*, the panel's task is essentially to examine the domestic legislation at dispute solely for the purpose of determining whether the party to the dispute meets its WTO obligations. In doing so, the panel does not set out to interpret the domestic law "as such", but to establish the meaning of that domestic law in terms of factual elements, and to check whether these factual elements constitute conduct by the party that may be contrary to its WTO obligations. A panel is not bound to accept the interpretation presented by the party in dispute in making factual findings concerning the meaning of the domestic law.

III. INTERPRETATION OF THE TRIPS AGREEMENT

6. Article 3.2 of the DSU directs the DSB to clarify provisions of WTO Agreements in accordance with the customary rules of interpretation of public international law. As noted by a number of panel and Appellate Body reports, customary rules of interpretation of public international law are embodied in the text of the 1969 Vienna Convention on the Law of Treaties. The principles codified in Articles 31 and 32 of the Vienna Convention have attained the status of customary rules.

7. Accordingly, the TRIPS Agreement must be interpreted in good faith based on the wording, the context, and the overall object and purpose of the Agreement. In addition, the work done in the preparation of the treaty and the circumstances of its conclusion may also be taken into consideration.

IV. BURDEN OF PROOF

8. The Appellate Body and panel reports have accepted and consistently applied the general rules that, (1) the party that asserts a fact, whether claimant or respondent, is responsible for providing proof thereof, and (2) the burden of proof lies with the party, whether complainant or defendant, that asserts the affirmative of a particular claim or defence.

9. The initial burden of proof lies with the complaining party, which must establish a prima facie case of inconsistency with a particular provision. A prima facie case must be based on "evidence and legal argument" put forward by the complaining party in relation to each of the elements of the claim. In the case of uncertainty, i.e. where all the evidence and arguments remain in equipoise, the benefit of the doubt is given to the defending party. Under the usual allocation of the burden of proof, a responding Member's measure will be treated as WTO-consistent, until sufficient evidence is presented to prove otherwise.

V. CHINA'S CRIMINAL THRESHOLDS AND ARTICLE 61 OF THE TRIPS AGREEMENT

10. We agree that police powers and the enforcement of criminal law are the exclusive domain of the sovereign jurisdiction, which shall be highly respected. Nevertheless, it can still be compromised with the consent of the State. By concluding the TRIPS Agreement, or acceding to the WTO Agreement, Members assume an obligation under Article 61 of the TRIPS Agreement to adjust their scope and level of criminal enforcement accordingly. There is an agreed "bottom line", i.e. a general principle 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." Based on the customary rule of "*pacta sunt servanda*", this is binding upon the Members and must be performed in good faith.

11. The panel in this case is requested to make an objective assessment of whether China's law, by setting specific thresholds, captures all wilful infringement on a commercial scale and meets the minimum standard required by Article 61 of the TRIPS Agreement. The panel should clarify the definition of the term "commercial scale" in the context of Article 61 based on the existing rules of interpretation. We would like to remind the panel of the Appellate Body's statement that, "[t]he purpose of treaty interpretation is to establish the common intention of the parties to the treaty."

12. While interpreting the provision at issue, dictionaries are a useful starting point for the definition of the terms. Nevertheless, as the Appellate Body has noted, "dictionary definitions have their limitations in revealing the ordinary meaning of a term. This is especially true where the meanings of terms used in the different authentic texts of the WTO Agreement are susceptible to differences in scope…". In *US – Gambling* the Appellate Body also pointed out that, "a Panel may start with the dictionary definitions of the terms to be interpreted. But dictionaries, alone, are not necessarily capable of resolving complex questions of interpretation, as they typically aim to catalogue all meanings of words – be those meanings common or rare, universal or specialized." Therefore, "the ordinary meaning of a treaty term must be ascertained according to the particular circumstances of each case. Importantly, the ordinary meaning of a treaty term must be seen in the light of the intention of the parties "as expressed in the words used by them against the light of the surrounding circumstances."

13. We have a particular concern over the "one-size-fits-all" regime of criminal thresholds. That is, whether a specific numerical threshold can capture all commercial-scale infringements that are intended to be covered by Article 61 of the TRIPS Agreement.

14. The term "commercial scale" used in Article 61 of the TRIPS Agreement is an abstract legal concept. Multiple aspects of local circumstances, such as the nature of the infringed rights, values and prices in the market, the motive and purpose of an act, the method and scale of infringement, the damage caused, profit gained, the cultural background, the state of advancement of modern technology and living standards, shall be taken into account in the implementation of Article 61 of the TRIPS Agreement.

VI. AN ANALYSIS OF ARTICLE 46 OF THE TRIPS AGREEMENT

15. According to Article 46 of the TRIPS Agreement, a Member is required to ensure that its judicial authority is provided with the power to order either the disposal or the destruction of the infringing goods. However, the Article does not go on to prescribe either the circumstances under which infringing goods must be destroyed or be disposed of, or any sequence or priority between the two options. A Member should be considered to have met the minimum standard if its judicial authority is provided with such power and authority that includes both disposal and destruction.

16. As to deciding whether to dispose of or destroy infringing goods, according to Article 1.1 of the TRIPS Agreement, a Member is free to determine for itself the most appropriate method of implementing Article 46 within its own legal system and practice. It is beyond the issue of minimum standard for a Member to determine the circumstances under which infringing goods are to be disposed of or destroyed.

17. In addition to the kind of power that a Member should vest in its judicial authority, Article 46 sets forth certain conditions relating to the implementation of the said disposal and destruction. While a Member or its judicial authority may use discretion in its choice of approach to dealing with infringing goods, it shall comply with the conditions attached to either approach, as required by the said Article.

18. The judicial authority must have the power to order either the disposal or destruction of infringing goods, whether at its own discretion or within the guidelines issued by any other authority of the Member. Furthermore, no matter for what reason, when the judicial authority orders the disposal of infringing goods, there shall be no compensation of any sort. Disposal must be made outside the channels of commerce, and any harm to the right holder must be avoided. If a judicial authority orders the destruction of infringing goods, there shall be no compensation of any sort, and the order to destroy shall not be contrary to any existing constitutional requirements.

19. In this dispute, the possibilities open to China's customs for disposing of the infringing goods are: donation to a relevant public welfare organization; sale to the right-holders; or, auction after the infringing features have been removed. The panel should make an objective assessment as to whether the three conditions attached to the disposal authority in Article 46 of the TRIPS Agreement have been observed in implementing the disposal by one of the possible methods.

VII. QUERY CONCERNING ARTICLE 4.1 OF CHINA'S COPYRIGHT LAW

20. TPKM has reached a conclusion similar to that of the United States' analysis on the interpretation of Article 4.1. Firstly, the English translation of Article 4.1 is clear and correct. It delivers the same meaning as the article in Chinese delivers at first sight. Secondly, works such as newspapers, books and movies cannot be distributed before passing a content review according to the relevant regulations. Excepting the version that has passed the content review, works that have not passed and works that fail to pass the content review are prohibited from distribution by law, which means they fall within the scope of Article 4.1's "works the publication or distribution of which is prohibited by law".

21. Clarification is required as to whether, as argued, China protects works that have not been submitted for a content review or that are pending authorization, and whether copyright protection is provided for works that are unconstitutional or immoral.

22. Further questions arise out of China's apparent contradictory arguments. If China limits the scope of Article 4.1 to only works that fail to pass a content review for the reasons that they are unconstitutional or immoral, would it be correct to assume that these unconstitutional and immoral works are not only prohibited from publication and distribution, but also denied the protection of copyrights? What about the protection of these works before they are deemed unconstitutional or immoral? Would protection be withdrawn retrospectively once they are deemed unconstitutional or immoral? The possible implications of these ambiguities are crucial to the examination of conformity with the Agreement.

23. The *raison d'être* for a copyright is to provide effective protection to works against any infringement. It would be futile to claim on the one hand that a copyright exists from the time a work is created, and on the other to deny the protection of such a right. There would appear at first sight to be some contradiction within China's laws and regulations, which leads to suspicion of a certain lack of conformity with the TRIPS Agreement.

24. TPKM shares the view of both parties that China has the right to conduct a content review based on Article 17 of the Berne Convention (1971) and Article 9.1 of the TRIPS Agreement. TPKM is also delighted to learn of China's position on the clear division between content review and copyright protection, and the fact that a copyright exists from the time when a work is created. TPKM is further of the view that a right cannot be independent of effective protection. Under the TRIPS Agreement, a work may be prohibited from publication or distribution, but it shall not be deprived of its copyright protection.

25. TPKM thanks the panel for providing us with the opportunity to contribute to its understanding of the issues at stake. We respectfully request the panel to take into account the above observations and comments in its deliberations, and hope that the panel will find the views helpful.

ANNEX C-17

ORAL STATEMENT BY CHINESE TAIPEI

1. Thank you, Mr. Chairman and distinguished members of the panel.

2. As a third party in this proceeding, we do not support any particular party to the dispute. We make this statement because we have a systemic interest in the correct interpretation of various provisions of the TRIPS Agreement.

3. Our written submission is in two parts. In the first, there are some general principles that we believe the Panel should observe in making an objective assessment of the dispute. In particular, we have provided references to previous WTO jurisprudence. In the second part, we submit our views on the specific, relevant provisions and measures at issue. I am not going to cover all of these in detail here, but I would just like to highlight the principles that we believe to be critical to this case, and the points that concern us most.

4. The first key principle is that the TRIPS Agreement is a minimum standards Agreement. Article 1.1 prescribes the minimum required of Members to protect intellectual property rights. They must take the necessary legal and administrative action to ensure the rights and obligations in the Agreement are put into effect, but they are free to determine for themselves how best to implement these obligations in the context of their own legal systems. Members are not allowed, though, to enact protection measures that would negate such rights and obligations.

5. Furthermore, Article 3.2 of the DSU directs the DSB to clarify provisions of WTO Agreements in accordance with the customary rules of interpretation of public international law. As a number of Panel and Appellate Body reports have noted, these "customary rules of interpretation" are embodied in the text of the 1969 Vienna Convention on the Law of Treaties – Articles 31 and 32 to be precise.

6. The TRIPS Agreement must therefore be interpreted in good faith, based on the wording, context and overall objective and purpose of the Agreement. In addition, the work done in the preparation of the Treaty, and the circumstances of its conclusion, may also be taken into consideration.

7. Now, if I may, Mr. Chairman, I would like to turn to the second part of our submission, which describes our views on the specific, relevant provisions and measures at issue, starting with China's criminal thresholds and Article 61 of the TRIPS Agreement.

8. We agree that police powers and the enforcement of criminal law are the exclusive domain of the sovereign jurisdiction, which shall be highly respected. Nevertheless, it can still be compromised with the consent of the State. By concluding the TRIPS Agreement, or acceding to the WTO Agreement, Members assume an obligation, under Article 61 of the TRIPS Agreement, to adjust their scope and level of criminal enforcement accordingly. There is an agreed "bottom line", i.e. a general principle 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." Based on the customary rule of "*pacta sunt servanda*", this is binding upon the Members and must be performed in good faith.

9. The Panel in this case is requested to make an objective assessment of whether China's law, by setting specific thresholds, captures all wilful infringement on a commercial scale and meets the minimum standard required by Article 61 of the TRIPS Agreement. We think the Panel should clarify the definition of the term "commercial scale" in the context of Article 61 based on the existing rules of

interpretation. We would like to remind the Panel of the Appellate Body's statement that, "[t]he purpose of treaty interpretation is to establish the *common* intention of the parties to the treaty."

10. Both parties to the dispute have provided dictionary definitions of the words "commercial" and "scale". As the Appellate Body has noted in the past, "dictionary definitions have their limitations in revealing the ordinary meaning of a term". They have also pointed out that "Dictionaries alone are not necessarily capable of resolving complex questions of interpretation, as they typically aim to catalogue all meanings of words – be they common or rare, universal or specialized." Therefore, "the ordinary meaning of a treaty term must be ascertained according to the particular circumstances of each case". Importantly, it must be seen in the light of the intention of the parties, and I quote: "as expressed in the words used by them against the light of the surrounding circumstances."

11. With regard to China's criminal thresholds, we have a particular concern over the "one-size-fits-all" regime. We wonder, whether a specific numerical threshold can capture all commercial-scale infringements that are intended to be covered by Article 61 of the TRIPS Agreement.

12. The term "commercial scale" used in Article 61 of the TRIPS Agreement is an abstract legal concept. In our view, many different aspects of local circumstances, such as: nature of the infringed rights; characteristics of the product; values and prices in the market; motive and purpose of the act; method and scale of the infringement; damage caused; profit gained; the cultural background; the state of advancement of modern technology; and the living standards, have to be considered on a case-by-case basis in the implementation of Article 61 of the TRIPS Agreement.

13. Next, the second issue at dispute, which relates to the interpretation of Article 46 of the TRIPS Agreement. According to that Article, a Member is required to ensure that its judicial authority is provided with the power to order either the disposal or the destruction of the infringing goods. However, the Article does not go on to prescribe either the circumstances under which infringing goods must be destroyed or be disposed of, or any sequence or priority between the two options. A Member should be considered to have met the minimum standard if its judicial authority is provided with the relevant power and authority.

14. According to Article 1.1 of the TRIPS Agreement, a Member is free to determine for itself the most appropriate method of implementing Article 46 within its own legal system and practice. It is beyond the issue of minimum standards for a Member to determine the circumstances under which infringing goods are to be disposed of or destroyed.

15. However, Article 46 does set forth certain conditions relating to the implementation of the said disposal and destruction. While a Member or its judicial authority may exercise discretion in its choice of approach to dealing with infringing goods, it shall comply with the conditions attached to whichever approach it chooses to take.

16. When the judicial authority orders the disposal of infringing goods, there shall be no compensation of any sort. Disposal must be made outside the channels of commerce, and any harm to the right holder must be avoided. If a judicial authority orders the destruction of infringing goods, there shall be no compensation of any sort, and the order to destroy shall not be contrary to any existing constitutional requirements.

17. In this dispute, the possibilities open to China's customs for disposing of the infringing goods are:

(a) donation to a relevant public welfare organization;

(b) sale to the right-holders; or,

(c) auction after the infringing features have been removed.

18. We suggest the Panel makes an objective assessment as to whether the conditions attached to the disposal authority in Article 46 of the TRIPS agreement have been fully observed by China in implementing these possible methods of disposal.

19. Regarding the issue of Article 4.1 of China's Copyright Law, we reached a conclusion similar to that of the United States' analysis on the interpretation of the Article. Firstly, the English translation is clear and correct. On the face of it, the same meaning is delivered in the English version as in the Chinese. Secondly, works such as newspapers, books and movies cannot be distributed before passing a content review according to the relevant regulations. With the exception of the version that has passed the content review, works that have not passed, and works that fail to pass the content review are prohibited from distribution by law, which means they fall within the scope of Article 4.1's "works the publication or distribution of which is prohibited by law".

20. We think that clarification is required as to whether, as argued, China protects works that have not been submitted for a content review or that are pending authorization, and whether copyright protection is provided for works that are unconstitutional or immoral.

21. Further questions arise out of China's apparently contradictory arguments. If China limits the scope of Article 4.1 to only works that fail to pass a content review for the reasons that they are unconstitutional or immoral, would it be correct to assume that these unconstitutional and immoral works are not only prohibited from publication and distribution, but also denied the protection of copyrights? What about the protection of these works before they are deemed unconstitutional or immoral? Would protection be withdrawn retrospectively once they are deemed unconstitutional or immoral? We think the possible implications of these ambiguities are crucial to the examination of conformity with the Agreement.

22. Finally, we think the *raison d'être* for a copyright is to provide effective protection to works against any infringement. It would be futile to claim on the one hand that a copyright exists from the time a work is created, and on the other to deny the protection of such a right. There would appear at first sight to be some contradiction within China's laws and regulations, which leads to the suspicion of a certain lack of conformity with the TRIPS Agreement.

23. We share the view of both parties that China has the right to conduct a content review based on Article 17 of the Berne Convention (1971) and Article 9.1 of the TRIPS Agreement. We are also delighted to learn of China's position on the clear division between content review and copyright protection, and the fact that a copyright exists from the time when a work is created. We are further of the view that a right cannot be independent of effective protection. Under the TRIPS Agreement, a work may be prohibited from publication or distribution, but it shall not be deprived of its copyright protection.

24. In conclusion, we would like to thank the Panel for providing us with the opportunity to contribute to its understanding of the issues at stake. We respectfully request that the Panel take into account these observations and comments in its deliberations, and we hope it will find our views helpful.

25. Thank you very much, Mr. Chairman and distinguished members of the Panel.

ANNEX C-18

ORAL STATEMENT BY THAILAND

I. INTRODUCTION

1. Mr. Chairman, distinguished Members of the Panel, I appreciate this opportunity to present, on behalf of the Royal Thai Government, Thailand's views in this panel proceeding as third party. In this regard, we have the following observations to make.

II. CHINA'S CRIMINAL THRESHOLDS

2. The United States claimed in its submission that China failed to meet its obligation under Article 61 of the TRIPS Agreement which requires Members to provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale.

3. In our view, the TRIPS Agreement requires Members to put in place a criminal procedure for those who intentionally infringe trademark or copyrights on a commercial scale. Nonetheless, the Agreement does not define the meaning of "on a commercial scale". It leaves room for a Member to make the interpretation it deems appropriate. Thailand sees this, like many other provisions in the Agreement, as intended or built-in flexibility, recognizing the different legal systems of Members.

4. Moreover, Article 1.1 of the TRIPS Agreement states that "…Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice."

5. The United States also claimed that China's assessments of the value of pirated goods were based on the value of the pirated goods themselves and not the genuine articles, and due to the fact that the value of pirated goods is normally low, the thresholds for criminal procedures have seldom been met. The TRIPS Agreement has no provision on how Members are to assess the value of the intellectual property right infringing goods. Thailand, therefore, believes this action should be solely based on each Member's applicable internal laws and regulations.

III. CHINESE CUSTOMS AUTHORITY IN DESTROY AND DISPOSE OF IPR INFRINGING GOODS.

6. In its Submission, the United States claimed that Chinese Customs has no authority to order the destruction of the confiscated IPR infringing goods. However, Chinese Customs has to comply with the following steps:

(a) trying to dispose of the confiscated IPR infringing goods by giving them to social welfare bodies, or letting the right holder buy them back;

(b) in the case that the goods cannot be used for social welfare purposes, and the right holder is not willing to buy them, having the goods auctioned with the IPR infringing features removed; and

(c) for the confiscated goods that could not be disposed of by the methods specified in (1) and (2), having them destroyed.

Nonetheless, China's submission argues that the three methods embodied in its Regulations on Customs Protection of Intellectual Property Rights are presented in an absolute hierarchy; China Customs may apply the most appropriate method to dispose of or destroy the IPR infringing goods.

7. Article 59 and 46 of the TRIPS Agreement requires that the competent agencies shall have the authority to order the destruction or disposal of infringing goods without compensation of any sort. As for the disposal of such goods, it shall be disposed of outside the channel of commerce in such a manner as to avoid any harm caused to the right holder, and, in 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 channel of commerce.

8. It is clear to Thailand that to fulfil the requirement of the TRIPS Agreement in this regard, Members shall authorise its competent agencies to order either the destruction or the disposal of the IPR infringing goods or both. In our view, the TRIPS Agreement accepts that the IPR infringing goods may be treated in such a manner other than their destruction, provided that such a manner is consistent with the principle of the disposal of infringing goods embodied in Article 46.

9. Thailand believes that the TRIPS Agreement does not limit Members' ability to develop measures for the disposal of the infringing goods prior to a destruction order being issued. However, the authority concerned needs to ensure that the infringed goods are disposed of outside of the channels of commerce, in such a manner as to avoid any harm being caused to the right holder and in a manner that creates an effective deterrent to infringement.

IV. CONCLUSION

10. Mr. Chairman, distinguished Members of the Panel, Thailand appreciates the opportunity to present our views in this meeting. Thank you very much for your kind attention.

ANNEX D

MISCELLANEOUS

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ANNEX D – 1

REQUEST FOR THE ESTABLISHMENT OF THE PANEL BY THE UNITED STATES

WORLD TRADE ORGANIZATION

WT/DS362/7
21 August 2007

(07-3501)

Original: English

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

Request for the Establishment of a Panel by the United States

The following communication, dated 13 August 2007, from the delegation of the United States to the Chairman of the Dispute Settlement Body, is circulated pursuant to Article 6.2 of the DSU.

On 10 April 2007, the United States requested consultations with the Government of the People's Republic of China pursuant to Articles 1 and 4 of the Understanding on Rules and Procedures Governing the Settlement of Disputes ("DSU") and Article 64 of the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement") (to the extent that Article 64 corresponds to Article XXII of the General Agreement on Tariffs and Trade 1994) with respect to certain measures pertaining to the protection and enforcement of intellectual property rights in China.[1] The United States held consultations with China on 7-8 June 2007. Those consultations provided some helpful clarifications but unfortunately did not resolve the dispute.

I. Thresholds for criminal procedures and penalties

The United States considers that China has not provided for criminal procedures and penalties to be applied in cases of willful trademark counterfeiting or copyright piracy on a commercial scale that fail to meet certain thresholds. China has established these thresholds through the following measures:

(1) the Criminal Law of the People's Republic of China (adopted at the Second Session of the Fifth National People's Congress on 1 July 1979 and revised at the Fifth Session of the Eighth National People's Congress on 14 March 1997) ("Criminal Law"), in particular Articles 213, 214, 215, 217, 218, and 220;

[1] WT/DS362/1.

(2) the Interpretation by the Supreme People's Court and the Supreme People's Procuratorate on Several Issues of Concrete Application of Law in Handling Criminal Cases of Infringing Intellectual Property (adopted at the 1331st Session of the Judicial Committee of the Supreme People's Court on 2 November 2004 and the 28th Session of the Tenth Procuratorial Committee of the Supreme People's Procuratorate on 11 November 2004 and to be effective as of 22 December 2004) ("the December 2004 Judicial Interpretation"); and

(3) the Interpretation by the Supreme People's Court and the Supreme People's Procuratorate on Several Issues of Concrete Application of Law in Handling Criminal Cases of Infringing Intellectual Property (II) (adopted on 4 April 2007, at the 1422nd Session of the Judicial Committee of the Supreme People's Court and the 75th Session of the Tenth Procuratorial Committee of the Supreme People's Procuratorate, and to be effective on 5 April 2007) ("the April 2007 Judicial Interpretation");

as well as any amendments, related measures,[2] or implementing measures.

Articles 213, 214, and 215 of the Criminal Law describe certain acts of trademark counterfeiting that may be subject to criminal procedures and penalties. However, under Article 213, criminal procedures and penalties are available only "if the circumstances are serious" or "if the circumstances are especially serious." Under Article 214, criminal procedures and penalties are available only "if the amount of sales [of commodities bearing counterfeit registered trademarks] is relatively large" or "if the amount of sales is huge." Under Article 215, criminal procedures and penalties are available only "if the circumstances are serious" or "if the circumstances are especially serious."

Articles 217 and 218 of the Criminal Law describe certain acts of copyright piracy that may be subject to criminal procedures and penalties. However, under Article 217, criminal procedures and penalties are available only "if the amount of illegal gains is relatively large, or if there are other serious circumstances" or "if the amount of illegal gains is huge or if there are other especially serious circumstances." Under Article 218, criminal procedures and penalties are available only "if the amount of illegal gains is huge."

Article 220 of the Criminal Law provides for the availability of procedures and penalties when the crimes described in Articles 213 through 219 are committed by a "unit," as opposed to by natural persons.

The Criminal Law does not contain definitions for the thresholds "serious," "especially serious," "relatively large," and "huge" as used in the above-referenced articles. However, the December 2004 Judicial Interpretation and the April 2007 Judicial Interpretation do contain such definitions, which use thresholds that are stated as minimum "illegal business volumes" (stated in terms of minimum values of products produced, stored, transported or sold), minimum "illegal gains", or minimum numbers of "illegal copies".

Acts of trademark counterfeiting and copyright piracy that fail to meet the statutory and judicial interpretation thresholds described above thus are not subject to Articles 213, 214, 215, 217, 218, and 220 of the Criminal Law.

[2] Such other related measures include the Explanation on Certain Questions Related to the Concrete Application of Law in Hearing Cases of Crimes of Illegal Publication, Fa Se (1998) No. 30 (adopted by the Adjudication Committee of the Supreme People's Court at its 1032nd meeting on 11 December 1998, effective as of 23 December 1998) and the Prosecution Guidelines for Criminal Cases Jointly Issued by the Supreme People's Procuratorate and the Ministry of Public Safety (18 April 2001).

Consequently, it appears that, as a result of the thresholds described above, there are cases of willful trademark counterfeiting and copyright piracy on a commercial scale in which China has not provided for criminal procedures and penalties to be applied. It also appears that, as a result of the thresholds described above, there are cases of willful trademark counterfeiting and copyright piracy on a commercial scale for which the remedies of imprisonment and/or monetary fine sufficient to provide a deterrent are not available in China. Furthermore, it appears that, as a result of the thresholds described above, 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 any act of willful trademark counterfeiting or copyright piracy on a commercial scale.

China's measures thus appear to be inconsistent with China's obligations under Articles 61 and 41.1 of the TRIPS Agreement.

II. Disposal of goods confiscated by Customs Authorities that infringe Intellectual Property Rights

The United States considers that China's measures for disposing of confiscated goods that infringe intellectual property rights appear to be inconsistent with China's obligations under the TRIPS Agreement. In this regard, the measures at issue are:

(1) the Regulations of the People's Republic of China for Customs Protection of Intellectual Property Rights (adopted at the 30th Ordinary Meeting of the State Council on 26 November 2003, published by the State Council on 2 December 2003, and effective from 1 March 2004) ("Customs IPR Regulations"), in particular Chapter 4 thereof;

(2) 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 (adopted at an Administration Affairs Meeting of the General Administration of Customs on 22 April 2004, issued by the General Administration of Customs with Order No. 114 on 25 May 2004, and effective from 1 July 2004) ("Customs IPR Implementing Measures"), in particular Chapter 5 thereof; and

(3) General Administration of Customs Announcement No. 16 (2 April 2007);

as well as any amendments, related measures,[3] or implementing measures.

Article 27 of the Customs IPR Regulations and Article 30 of the Customs IPR Implementing Measures set forth a hierarchy of requirements for the disposal of goods that infringe intellectual property rights and that are confiscated by Chinese customs authorities. Under that hierarchy, the Chinese customs authorities are required to give priority to disposal options that allow such goods to enter the channels of commerce (for instance, through auctioning the goods after removing their infringing features). Only if the infringing features cannot be removed must the goods be destroyed.

The release of infringing goods into the channels of commerce under the circumstances set forth in the measures at issue appears not to constitute destruction or disposal of infringing goods in accordance with the principles set out in Article 46 of the TRIPS Agreement. Consequently, the requirement in the measures at issue that Chinese customs authorities release infringing goods into the

[3] Such other related measures include the Law of the People's Republic of China on Administrative Penalty (adopted at the Fourth Session of the Eighth National People's Congress on 17 March 1996, promulgated by Order No. 63 of the President of the People's Republic of China on 17 March 1996, and effective as of 1 October 1996) and in particular Article 53 thereof.

channels of commerce under the circumstances set forth in those measures appears to 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. The measures at issue therefore appear to be inconsistent with China's obligations under Article 59 of the TRIPS Agreement.

III. Denial of copyright and related rights protection and enforcement to works that have not been authorized for publication or distribution within China

The United States considers that China appears to be acting inconsistently with its obligations under the TRIPS Agreement by denying the protection of its Copyright Law to creative works of authorship (and, to the extent Article 4 of the Copyright Law applies to them, sound recordings and performances) that have not been authorized for, or are otherwise prohibited from, publication or distribution within China. In this regard, the measures at issue are:

(1) the Copyright Law,[4] in particular Article 4;

(2) the Criminal Law; the Regulations on the Administration of Publishing Industry; the Regulations on the Administration of Broadcasting; the Regulations on the Administration of Audiovisual Products; the Regulations on the Administration of Films; and the Regulations on the Administration of Telecommunication;[5]

(3) the Regulations on Administration of the Films Industry[6];

(4) the Administrative Regulations on Audiovisual Products[7];

(5) the Administrative Regulation on Publishing[8];

(6) the Administrative Regulations on Electronic Publications[9];

(7) the Measures for the Administration of Import of Audio and Video Products[10];

(8) the Procedures for Examination and Approval for Publishing Finished Electronic Publication Items Licensed by a Foreign Copyright Owner[11];

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[4] Adopted at the 15th Session of the Standing Committee of the Seventh National People's Congress on 7 September 1990, and amended according to the Decision on the Revision of the Copyright Law of the People's Republic of China, adopted at the 24th Session of the Standing Committee of the Ninth National People's Congress on 27 October 2001. *See Main Dedicated Intellectual Property Laws and Regulations Notified under Article 63.2 of the Agreement: China*, IP/N/1/CHN/C/1, circulated 8 July 2002.

[5] As noted by China in reply to a question in *Review of Legislation: China*, IP/Q/CHN/1, circulated 10 December 2002, section V.A.3.

[6] State Council Order No. 342, adopted at the 50th executive meeting of the State Council on 12 December 2001, promulgated on 25 December 2001.

[7] State Council Order No. 341, adopted at the 50th executive meeting of the State Council on 12 December 2001, promulgated on 25 December 2001.

[8] State Council Order No. 343, adopted at the 50th executive meeting of the State Council on 12 December 2001, promulgated on 25 December 2001.

[9] Order No. 11 of the General Administration of Press and Publication (30 December 1997).

[10] Decree No. 23 of the Ministry of Culture and the General Administration of Customs (17 April 2002).

[11] General Administration of Press and Publication (27 December 2005) (Basis of Establishment: Decision on Establishing Administrative Licensing for Items Necessary to be Maintained for Administrative Examination and Approval by the State Council [State Council Order No. 412]).

(9) the Procedures for Examination and Approval of Importation of Finished Electronic Publication Items by Electronic Publication Importation Entities[12];

(10) the Procedures for Recording of Imported Publications[13];
(11) the Interim Regulations on Internet Culture Administration[14]; and

(12) the Several Opinions on the Development and Regulation of Network Music[15];

as well as any amendments, related measures, or implementing measures.

Article 5(1) of the *Berne Convention for the Protection of Literary and Artistic Works (1971)* (the "Berne Convention") provides that foreign authors of protected works shall enjoy all the rights granted to domestic authors, as well as all the rights specially granted by the Berne Convention.[16] Moreover, these rights may not be made subject to any formality (Berne Convention Article 5(2)). Article 9.1 of the TRIPS Agreement requires all WTO Members, *inter alia*, to comply with Articles 1 through 21 of the Berne Convention.[17]

China's Copyright Law provides the legal basis for copyright protection within China of the works of Chinese and foreign authors, and it provides an array of rights to such authors (e.g., rights of reproduction, translation, and adaptation). In addition, the Copyright Law provides specific statutory protections to performers, producers of sound recordings, and broadcasting organizations. However, the first sentence of Article 4 of the Copyright Law provides as follows: "Works the publication or distribution of which is prohibited by law shall not be protected by this Law." Therefore, authors of works whose publication or distribution in China is prohibited (such as those works whose publication or distribution has not been authorized in China[18]) appear not to enjoy the protection specially granted by the Berne Convention in respect of those works (and, it appears, may never enjoy such protection if the work is not authorized, or is not authorized for distribution or publication in the form as submitted for review). By causing this denial of copyright protection, Article 4 of the Copyright Law appears to be inconsistent with China's obligations under Article 9.1 of the TRIPS Agreement. In addition, the copyright rights of authors of works whose publication or distribution is required to undergo pre-publication or pre-distribution review appear to be subject to the formality of successful conclusion of such review. By subjecting copyright protection to this formality, Article 4 of the Copyright Law appears to be inconsistent with China's obligations under Article 9.1 of the TRIPS Agreement.

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[12] General Administration of Press and Publication (27 December 2005) (Basis of Establishment: Decision on Establishing Administrative Licensing for Items Necessary to be Maintained for Administrative Examination and Approval by the State Council [State Council Order No. 412]).

[13] General Administration of Press and Publication (27 December 2005) (Basis of Establishment: Article 45 of the Administration Regulations on Publication [State Council Order No. 343]).

[14] Promulgated in Order No. 27 of the Ministry of Culture (10 May 2003), amended by Order No. 32 of the Ministry of Culture (1 July 2004).

[15] Ministry of Culture (20 November 2006).

[16] The rights specially granted by the Berne Convention include, *inter alia*, the right of reproduction (Berne Convention Article 9(1)), the right of adaptation (Berne Convention Article 12), and the right of translation (Berne Convention Article 8).

[17] However, 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.

[18] See, e.g., the Regulations on Administration of the Films Industry, articles 24 and 42, and the Administrative Regulations on Electronic Publications, articles 58-59 and 72.

In addition, Article 14 of the TRIPS Agreement requires China 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 (collectively, the "related rights"). To the extent that Article 4 of the Copyright Law also denies protection of related rights with respect to performances (or their fixations) or sound recordings, the publication or distribution of which has not been authorized or is otherwise prohibited in China, Article 4 of the Copyright Law appears to be inconsistent with China's obligations under Article 14 of the TRIPS Agreement.

Furthermore, it appears that the measures at issue establish different pre-distribution and pre-authorization review processes for Chinese nationals' works, performances (or their fixations) and sound recordings than for foreign nationals' works, performances (or their fixations) and sound recordings.[19] These different processes, taken together with Article 4 of the Copyright Law, appear to result in earlier and otherwise more favorable protection and enforcement of copyright rights for Chinese authors' works than for foreign authors' works. Further, to the extent Article 4 applies with respect to related rights, these different processes, taken together with Article 4 of the Copyright Law, appear to result in earlier and otherwise more favorable protection and enforcement of related rights for Chinese performers' performances (or their fixations) and Chinese producers' sound recordings than for foreign performers' performances (or their fixations) and foreign producers' sound recordings. The measures at issue therefore appear to be inconsistent with China's obligations under Article 3.1 of the TRIPS Agreement, which provides that, subject to certain exceptions and qualifications, each Member shall accord to the nationals of other Members treatment no less favorable than that it accords to its own nationals with regard to the protection of intellectual property. Additionally, because Article 4 of the Copyright Law, in conjunction with the nationality-dependent pre-authorization and pre-distribution review processes established by the other measures at issue, causes foreign authors of works whose publication or distribution has not been authorized or is otherwise prohibited not to enjoy the rights granted to Chinese authors, the measures at issue appear to be inconsistent with China's obligations under Article 9.1 of the TRIPS Agreement (with respect at least to China's obligations under that article of the TRIPS Agreement to comply with Articles 5(1) and 5(2) of the Berne Convention).

In addition, Article 4 of China's Copyright Law, both independently and in conjunction with the other measures at issue, appears to make it impossible to enforce copyrights (and, to the extent covered by Article 4, related rights) with respect to works, performances or sound recordings whose publication or distribution in China has not been authorized or is otherwise prohibited. It therefore appears that, as a result of the measures at issue, 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 those copyrights and related rights in such circumstances, and that China does not provide for criminal procedures and penalties to be applied in certain cases of copyright piracy. The measures at issue thus appear to be inconsistent with China's obligations under Articles 41.1 and 61 of the TRIPS Agreement.

* * * * *

Accordingly, the United States respectfully requests, pursuant to Article 6 of the DSU, that the Dispute Settlement Body establish a panel to examine these matters, with the standard terms of reference as set out in Article 7.1 of the DSU.

[19] See, e.g., the Administrative Regulations on Audiovisual Products, articles 16, 28 and 36, and the Administrative Regulations on Electronic Publications, articles 28, 33, and 58-59.

ANNEX D-2

LETTER DATED 21 APRIL 2008 FROM THE PANEL TO THE INTERNATIONAL BUREAU OF WIPO

At its meeting on 25 September 2007, the WTO Dispute Settlement Body established the Panel on *China – Measures affecting the Protection and Enforcement of Intellectual Property Rights* pursuant to the request by the United States in document WT/DS362/7 (please see the attached document), in accordance with Article 6 of the Dispute Settlement Understanding. On 13 December 2007, a Panel was composed to examine this complaint (please see the attached document WT/DS362/8).

Certain provisions of the Berne Convention for the Protection of Literary and Artistic Works have been raised in these proceedings as relevant to the interpretation of China's obligations under the TRIPS Agreement. Given that the International Bureau of WIPO is responsible for the administration of that Convention, the purpose of this letter is to request, on behalf of the Panel, the assistance of the International Bureau of WIPO in the form of any factual information available to it relevant to the interpretation of the provisions in question, in particular as reflected in the materials of diplomatic conferences and subsequent developments in the framework of the Berne Union.

The specific provisions of the Berne Convention in regard to which the Panel would seek this assistance at this stage are:

- Article 5 of the Paris Act of 1971 of the Berne Convention, in particular:
    - paragraph (1) regarding the provision that "Authors shall enjoy, in respect of works for which they are protected under this Convention, … the rights specially granted by this Convention."; and
    - paragraph (2) regarding the provision that "The enjoyment and the exercise of these rights shall not be subject to any formality;"; and
- Article 17 of the Paris Act of 1971 of the Berne Convention, in particular as regards its relationship to Article 5.

It would facilitate the work of the Panel if such information could be made available by Thursday, 15 May 2008.

ANNEX D-3

**REPLY FROM THE INTERNATIONAL BUREAU OF WIPO
DATED 6 JUNE 2008**

Thank you for your letter of April 21, 2008, addressed to Dr. Kamil Idris, Director General of the World Intellectual Property Organization (WIPO), requesting the assistance of the International Bureau in providing information available on the provisions of the Berne Convention (1971) relevant to the interpretation of Articles 5 and 17, in particular as reflected in the materials of diplomatic conferences and subsequent developments in the framework of the Berne Union.

I am pleased to attach to this letter a Note concerning your request. We are at your disposal for any further information or advice.

NOTE

on Certain Provisions of the Berne Convention
raised by the World Trade Organization

1. This Note contains the observations of the International Bureau of the World Intellectual Property Organization (WIPO) in response to a request made by Mr. Adrian Macey, Chair, Panel on China - Measures affecting the Protection and Enforcement on Intellectual Property Rights pursuant to the request by the United States in document WT/DS36217, in a letter of April 21, 2008, addressed to Dr. Kamil Idris, Director General of WIPO.

2. The requested information., related to the dispute in the above-mentioned Panel under the WTO Dispute Settlement Body, is the following:

> "Any factual information available to the International Bureau on the provisions of the Berne Convention (1971) relevant to the interpretation of the provisions in question, in particular as reflected in the materials of diplomatic conferences and subsequent developments in the framework of the Berne Union:
>
> > regarding Article 5 of the Paris Act of 1971 of the Berne Convention, in particular:
> >
> > – paragraph (1) regarding the provision that "Authors shall enjoy, in respect of works for which they are protected under this Convention, ... the rights specially granted by this Convention, and
> > – paragraph (2) regarding the provision that "The enjoyment and the exercise of these rights shall not be subject to any formality"
> >
> > Article 17 of the Paris Act of 1971 of the Berne Convention, in particular as regards its relationship to Article 5."

3. The information contained in this Note has been obtained from the analysis of the proceedings of the following Conferences of the Berne Convention, in chronological order:

- The Diplomatic Conference of 1884: International Conference for the Protection of Authors' Rights held in Berne, from September 8 to 19, 1884
- The Diplomatic Conference of 1885: Second International Conference for the Protection of Literary and Artistic Works, held in Berne, from September 7 to 18, 1885
- The Diplomatic Conference of 1886 (Berne Act): Third International conference for the Protection of Literary and Artistic Works, held in Berne, from September 6 to 9, 1886
- The Diplomatic Conference of 1896 (Paris Act): Diplomatic Conference held in Paris, from April 15 to May 4, 1896
- The Diplomatic Conference of 1908 (Berlin Act): Diplomatic Conference held in Berlin, from October 14 to November 14, 1908
- Additional Protocol of 1914 (Berne Protocol): Additional Protocol to the Convention signed in Berne without a conference of revision
- The Diplomatic Conference of 1928 (Rome Act): Diplomatic Conference held in Rome, from May 7 to June 2, 1928
- The Diplomatic Conference of 1948 (Brussels Act): Diplomatic Conference held in Brussels from June 5 to 26, 1948

- The Diplomatic Conference of 1967 (Stockholm Act): Intellectual Property Conference held in Stockholm, from June 11 to July 14, 1967
- The Diplomatic Conference of 1971 (Paris Act): Diplomatic Conference for the Revision of the Berne Convention held in Paris, from July 5 to 24, 1971

4. The preparation of this Note has been partly based on the review of official proceedings, and partly solely based on the indexes. The official proceedings of the above Conferences do not contain indexes by Article, except for the 1967 Stockholm Conference.

5. The 1914 Additional Protocol to the Convention and the 1971 Paris Conference did not refer or amend Articles 5 and 17. No information from those proceedings is included in this Note.

6. Other materials related to subsequent developments of the Berne Union, such as the period of so-called "guided development"[1] from 1967 to 1991 and a general review of the implementation of the treaty provisions in all national laws of Berne Union Member States, have not been analyzed for this Note. Those cover a vast amount of material which is not available in a systematic and detailed indexed form. Any selection of material considered relevant to the above specific provisions will invariably imply risks of interpretations which would be incompatible with the neutral status of WIPO in relation to the above-mentioned dispute. The International Bureau is, however, prepared to furnish any non-confidential material in its possession which is specified in such a way that it can be identified without the need for the International Bureau to make any interpretations of the substantive provisions of the Berne Convention.

Article 5, *paragraph (1) (Rights guaranteed) and paragraph* (2) *(No formalities)*

7. The protection on rights guaranteed under Article 5(1) with two separate elements: i) the national treatment and ii) the rights specially granted by the Convention was included in the Berlin Act as Article 4, and did not undergo major changes in the subsequent revisions.

8. The wording of the provision regarding the formality-free rule of protection in now Article 5(2) has not changed since the Berlin Act (then Article 4(2». Issues on the compliance of formalities were discussed from the Diplomatic Conference of 1884.

9. Annex I to this Note contains the following excerpts of the International Conference of] 884, regarding Article 2:

(a) Excerpts of the program proposed by the Swiss Federal Council[2],

(b) Excerpts of discussions of Second Session (President Numa Droz)[3],

(c) Excerpts of discussions of Fifth Session (President Numa Droz)[4],

(d) Excerpts of the Draft Convention for the creation of a General Union for the authors' rights protection[5].

[1] A term used by Sam Ricketson in: "The Berne Convention, for the Protection of Literary and Artistic Works," Centre for Commercial Law Studies, Kluwer, 1987, p. 919

[2] Source: Actes de la Conference International pour la Protection des CEuvres Litteraires et Artistiques reunie it Berne du 8 au 19 de septembre 1884 (in the following referred to as "Actes 1884"), p. 11

[3] Source: Actes 1884, pp. 27 and 30

[4] Source: Actes 1884, pp. 39 to 43

[5] Source: Actes 1884, pp. 77 and 78

10. Annex II to this Note contains the following excerpts of the Second International Conference of 1885, regarding Article 2:

(a) Excerpts of discussions of Second Session (President Numa Droz)[6],

(b) Excerpts of discussions of Third Session (President Numa Droz)[7],

(c) Excerpts of the Report of the Commission (president Numa Droz)[8],

(d) Excerpts of the adopted text by the Conference[9].

11. Annex III to this Note contains the following excerpts of the Third International Conference of 1886, related to Article 2:

(a) Text of Article 2 of the Convention[10].

12. Annex IV to this Note contains the following excerpts of the Records of the Conference of the 1896 Paris Act of the Convention, related to Article 2:

(a) Proposal of modification of the French Administration[11],

(b) Excerpts of wishes (vreux) related to the provisions of the Convention[12],

(c) Excerpts of wishes (vreux) related to internal legislation[13],

(d) Excerpts of discussions in Second Session (President M. C. de Freycinet)[14],

(e) Excerpt of the Table of proposals, counter proposals and amendments submitted to the Conference[15],

(f) Excerpts of discussions in Third Session (President M. C. de Freycinet)[16],

(g) Excerpts of proposals adopted by the Commission and presented to the Conference in its session [17],

(h) Excerpts of the Report presented on behalf of the Commission by the French Delegation[18],

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[6] Source: Actes de la 2me Conference International pour la Protection des CEuvres Litteraires et Artistiques reunie it Berne du 7 au 18 de septembre] 885 (in the following referred to as "Actes 1885"), pp. 19 to 21

[7] Source: Actes 1885, pp. 25 to 28

[8] Source: Actes 1885, pp. 39 and 42

[9] Source: Actes 1885, pp. 73 and 74

[10] Source: Actes de la 3me Conference International pour la Protection des CEuvres Litteraires et Artistiques reunie 11 Berne du 6 au 9 de septembre 1886 (in the following referred to as "Actes 1886"), pp. 27, 30 and 32

[11] Source: Actes de la conference reunie it Paris du 15 avril au 4 mai 1896 (in the following referred to as "Actes 1896"), pp. 35, 36 and 37

[12] Source: Actes 1896, pp. 53 and 54

[13] Source: Actes 1896, p. 75

[14] Source: Actes 1896, pp. 103, 111 and 112

[15] Source: Actes 1896, p. 121

[16] Source: Actes 1896, pp. 127 to 132

[17] Source: Actes 1896, pp. 153 and 157

(j) Excerpts of the adopted Act[19],

(k) Interpretative declaration[20].

13. Annex V to this Note contains the following excerpts from the Records of the Conference of the 1908 Berlin Act of the Convention:

(a) Excerpts of proposals of modification of Article 2[21],

(b) Excerpts of the provisional text of the Convention[22],

(c) Excerpts of wishes (vreux) related to Article 2 of the Convention[23],

(d) Excerpts of wishes (vreux) related to internal legislation[24],

(e) Excerpts of the discussions of the Second Session (President Dr. Von Studt). Presentation of the proposal of the Government of Gennany, made by Dr. Osterrieth[25],

(f) Excerpts of the discussions of the Second Session (President Dr. Von Studt). Presentation of the proposal of the Government of Gennany, made by Professor, Dr. Rothlisberger[26],

(g) Excerpt of the Table of proposals, counter proposals and amendments submitted to the Conference[27],

(h) Exposition of Motives of new modifications presented by the Belgian Delegation[28],

(i) Excerpts of the discussions of the Third Session (President Dr. Von Studt)[29],

(j) Excerpts of the annexes of discussions in Third Session. Report presented to the Conference by the Commission, regarding Article 4 (Mr. Louis Renault)[30],

(k) Excerpts of the draft of the Revision of the Convention regarding Article 4[31],

(l) Excerpt of the Table of proposals, counter proposals and amendments submitted to the Commission[32],

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[18] Source: Actes 1896, pp. 160 to 164
[19] Source: Actes 1896, pp. 217 and 220
[20] Source: Actes 1896, p. 225
[21] Source: Actes de la conference reunie it Berlin du 14 octobre au 14 novem bre 1908 (in the following referred to as "Actes 1908"), pp. 55 to 57
[22] Source: Actes 1908, pp. 71 and 72
[23] Source: Actes 1908, pp. 81 to 83
[24] Source: Actes 1908, pp. 104 and 105
[25] Source: Actes 1908, pp. 157, 160, 161 and 169
[26] Source: Actes 1908, pp. 177 and 178
[27] Source: Actes 1908, pp. 184 and 185
[28] Source: Actes 1908, pp. 192 to 199
[29] Source: Actes 1908, pp. 209 and 214
[30] Source: Actes 1908, pp. 225, 240 and 241
[31] Source: Actes 1908, pp. 278 and 279
[32] Source: Actes 1908, pp. 283 and 284

(m) Excerpts of the adopted Act regarding Article 4[33].

14. Annex VI to this Note contains the following excerpts from the Records of the Conference of the 1928 Rome Act of the Convention, regarding Article 4, first and second indents:

(a) Excerpts of wishes (vreux) related to specific provisions of the Convention[34],

(b) Excerpts of wishes (vreux) non-related to specific provisions of the Convention[35],

(c) Excerpts from the Program of the Conference[36],

(d) Excerpts of proposals, counter-proposals and observations of the British Administration[37]

(e) Excerpts of proposals, counter-proposals and observations of the French Administration[38],

(f) Excerpts of proposals, counter-proposals and observations of the Norwegian Administration[39],

(g) Excerpts of the Summary of proposals and discussions[40],

(h) Excerpts of Second Plenary session[41],

(i) Excerpts of the adopted Act[42].

15. Annex VII to this Note contains the following excerpts from the Records of the Conference of the 1948 Brussels Act of the Convention, relevant to Article 4, paragraphs (1) and (2):

(a) Excerpt of the adoption of the text of the Act[43],

(b) Excerpts from the General Report (presented by Mr. Marcel Plaisant, Rapporteur-General)[44],

(c) Excerpts of the preparatory works and group debates[45],

(d) Excerpts of wishes (vreux) expressed by various congresses and meetings between 1927 and 1935, relating to Article 4[46],

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[33] Source: Actes 1908, pp. 311 and 315
[34] Source: Actes de la conference reunie a Rome du 7 mai au 2 juin 1928 (in the foJlowing referred to as "Actes 1928"), pp. 30 and 40
[35] Source: Actes 1928, pp. 41 and 45
[36] Source: Actes 1928, pp. 61, 67 and 68
[37] Source: Actes 1928, pp. 87, 91 and 92
[38] Source: Actes 1928, p. 99
[39] Source: Actes 1928, p. 111
[40] Source: Actes 1928, pp. 221, 233 and 234
[41] Source: Actes 1928, pp. 285 and 290
[42] Source: Actes 1928, pp. 329 and 337
[43] Source: Documents de la conference reunie it Bruxelles du 5 au 26 juin 1948 (in the following referred to as "Documents 1948"), p. 81
[44] Source: Documents 1948, pp. 93 and 96
[45] Source: Documents 1948, pp. 133, 170 to 172, and 178

(e) Excerpts of wishes (vreux) expressed by various congresses and meetings between 1927 and 1935, non-related to specific provisions of the Convention[47],

(f) Excerpts of wishes (vreux) expressed by various congresses and meetings between 1927 and 1935, concerning certain countries[48],

(g) Excerpts of the adopted Act[49].

16. Annex VIII to this Note contains the following excerpts from the Records of the Conference of the 1967 Stockholm Act of the Convention, relevant to Article 5 paragraphs 1 and 2:

(a) Basic proposal (Sweden and BIRPI) regarding Article 4, paragraphs (1) and (3), S/1[50],

(b) Observations on basic proposals by the Government of Switzerland, regarding Article 4(1)[51],

(c) Observations on basic proposals by the Secretariat, regarding Article 4, paragraphs (1) and (3)[52],

(d) Proposal from the Chairman of Main Committee I, regarding Article 5, paragraph (1) and (2)[53],

(e) Proposal from the Government of Switzerland, regarding Article 4, paragraphs (1) and (5)[54],

(f) Proposal from the Secretariat to the Drafting Committee[55],

(g) Proposal from the Government of Brazil, regarding Article 4(1)[56],

(h) Proposal from the Secretariat, after discussion with the Drafting Committee, regarding Article 5, paragraph (1) and (2)[57],

(i) Draft Report of Main Committee I[58],

(j) Excerpt from the final text of Report of Main Committee I (Rapporteur Svante Bergstrom)[59],

(k) Excerpts of the Summary Minutes of Main Committee I[60];

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[46] Source: Documents 1948, p. 438
[47] Source: Documents 1948, p. 475
[48] Source: Documents 1948, p. 482
[49] Source: Documents 1948, pp. 530 to 533
[50] Source: Records of the Intellectual Property Conference of Stockholm, June 11 to July 14, 1967 (in the following referred to as "Records 1967"), document S/1, pp. 71,90, 92, and 151
[51] Source: Records 1967, document S/17, pp. 662 and 664
[52] Source: Records 1967, document S/18, p. 667
[53] Source: Records 1967, document S/44, p. 687
[54] Source: Records 1967, document S/63 p. 690
[55] Source; Records 1967, document S/187, pp. 708 and 709
[56] Source: Records 1967, document S/21 0, p. 704
[57] Source: Records 1967, document S/241-Annex, pp. 721 and 723
[58] Source: Records 1967, document S/271, p. 739
[59] Source: Records 1967, p. 1131; paragraphs 11, 18 to 31, p. 1133f

(l) Excerpts of the Summary Minutes of the Plenary of the Berne Union regarding Article 5[61],

(m) Text in Stockholm Act, regarding Article 5, paragraphs (1) and (2)[62].

Article 17 *(Possibility of Control of Circulation, Presentation and Exhibition of Works)*

17. This provision was included since the inception of the Berne Convention, and has remained unchanged since the Berne Act, except for minor wording changes and renumbering (becoming Article 10, 13 or 14).

18. Annex IX to this Note contains the following excerpts of the International Conference of 1884, regarding Article 14:

(a) Excerpts of discussions of Fifth Session (president Numa Droz)[63],

(b) Excerpts of the Draft Convention for the creation of a General Union for the authors' rights protection[64],

19. Annex X to this Note contains the following excerpts of the Second International Conference of 1885:

(a) Excerpts of discussions of Fourth Session, related to Article 14 (President Numa Droz)[65],

(b) Excerpts of the Report of the Commission, related to Article 13 (Article 14 of the Draft) (President Numa Droz)[66],

(c) Excerpts of the adopted text by the Conference, regarding Article 13[67],

20. Annex Xl to this Note contains the following excerpts of the Third International Conference of 1886, related to Article 13:

(a) Text of Article 13 of the Convention[68].

21. Annex XII to this Note contains the following excerpts of the Records of the Conference of the 1896 Paris Act of the Convention, related to Article 13:

(a) Excerpts of discussions in Second Session (President M. C. de Freycinet)[69];

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[60] Source; Records 1967, paragraphs 468.2 to 464 (on the organization of the work of Main Committee I) p. 837f; paragraphs 485 to 489 (on criterion of nationality), p. 839; paragraphs 594 to 606.1,630.1 to 641,698 to 707 (criteria of eligibility) p. 847f

[61] Source: Records 1967, paragraph 93, p. 804

[62] Source: Records 1967, p. 1287 and 1290

[63] Source: Actes 1884, pp. 39 and 58

[64] Source: Actes 1884, pp. 77,80 and 81

[65] Source: Actes 1885, pp. 33 and 35

[66] Source: Actes 1885, pp. 39,40, 51

[67] Source: Actes 1885, pp. 73 and 77

[68] Source: Actes 1886, pp. 27 and 33

[69] Source: Actes 1896, pp. 91 and 117

(b) Excerpts of proposals adopted by the Commission and presented to the Conference in its session[70].

22. Annex XIII to this Note contains the following excerpts from the Records of the Conference of the 1908 Berlin Act of the Convention:

(a) Excerpts of proposals of modification regarding Article 13[71],

(b) Excerpts of the provisional text of the Convention, regarding Article 10[72],

(c) Excerpts of the discussions of the Third Session, regarding Articles 14 to 24 (President Dr. Von Studt)[73],

(d) Excerpts of the annexes of discussions in Third Session. Report presented to the Conference by the Commission, regarding Article 17 (Mr. Louis Renault)[74],

(e) Excerpts of the adopted Act, regarding Article 17[75].

23. Annex XIV to this Note contains the following excerpts from the Records of the Conference of the 1928 Rome Act of the Convention:

(a) Excerpts of proposals, counter-proposals and observations of the British Administration, relevant to Article 17[76];

(b) Excerpts of the Summary of proposals and discussions regarding Articles II, 11*bis* and 17[77],

(c) Excerpts of the adopted Act, regarding Article 17[78].

24. Annex XV to this Note contains the following excerpts from the Records of the Conference of the 1948 Brussels Act of the Convention, relevant to Article 17:

(a) Excerpt of the adoption of the text of the Act[79],

(b) Excerpts from the General Report (presented by Mr. Marcel Plaisant, Rapporteur-General)[80],

(c) Excerpts of the preparatory works and group debates[81],

(d) Excerpts of the adopted Act[82].

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[70] Source: Actes 1896, pp. 153 and 155
[71] Source: Actes 1908, pp. 55, 62 and 63
[72] Source: Actes 1908, pp. 71 and 74
[73] Source: Actes 1908, pp. 209 and 217
[74] Source: Actes 1908, pp. 225 and 267
[75] Source: Actes 1908, pp. 311 and 319
[76] Source: Actes 1928, pp. 91 and 94
[77] Source: Actes 1928, pp. 221, 254 to 261, and 270
[78] Source: Actes 1928, pp. 329 and 342
[79] Source: Documents 1948, pp. 81 and 82
[80] Source: Documents 1948, pp. 93 and 105
[81] Source: Documents 1948, pp. 133 and 376
[82] Source: Documents 1948, pp. 530 and 531, 544 and 545

25. Annex XVI to this Note contains the following excerpts from the Records of the Conference of the 1967 Stockholm Act of the Convention, relevant to Article 17:

(a) Basic proposal (Sweden and BIRPI), S/1[83],

(b) Observations on basic proposals by the Government of United Kingdom[84],

(c) Proposal from the Government of United Kingdom concerning Article 17[85],

(d) Proposal from the Government of Australia concerning Article 17[86],

(e) Proposal from the Government of Israel concerning Article 17[87],

(f) Proposal from the Government of Italy concerning Article 17[88],

(g) Proposal from the Secretariat to the Drafting Committee concerning Article 17[89],

(h) Report of the Drafting Committee to Main Committee I[90],

(i) Draft Report of Main Committee I[91],

(j) Approved text of Main Committees I, II, and IV[92],

(k) Excerpt from the final text of Report of Main Committee I (Rapporteur Svante Bergstrom) relating to Article 17[93],

(l) Excerpts of the Summary Minutes of Main Committee I[94],

(m) Excerpts of the Summary Minutes of the Plenary of the Berne Union[95],

(n) Text of Article 17 in Stockholm Act[96].

[End of Note. Annexes follow]

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[83] Source: Records 1967, document S/1, pp. 148 and 149, 160 and 161
[84] Source: Records 1967, documents S/13, p. 631; S/18, p. 673
[85] Source: Records 1967, document S/171, p. 704
[86] Source: Records 1967, document S/215 p. 715
[87] Source: Records 1967, document S/223, p. 716
[88] Source: Records 1967, document S/226, p. 716
[89] Source: Records 1967, document S/241, pp. 721 and 722
[90] Source: Records 1967, document S/269, pp. 734 and 735
[91] Source: Records 1967, Document S/271, pp. 739 to 746
[92] Source: Records 1967, Document S/278, p. 752
[93] Source: Records 1967, p 1131; paragraphs 257 to 263, pp. 1173 to 1175
[94] Source: Records 1967, paragraphs 1385.1 to 1388.2,1428.1 to 1439 (on the limitation on exhibition of works) p. 907f; paragraphs 1389.1 to 1395, 1407 to 1427 (abuse of monopoly position) p. 908f; paragraphs 1722 to 1727 (discussion on the texts proposed by the Drafting Committee) p. 929; and paragraphs 1878 to 1896 (examination of the report of Main Committee I) p. 937 and 938.
[95] Source: Records 1967, paragraphs 125.1 to 132, p. 806
[96] Source: Records 1967, pp. 1287 and 1298