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

(WT/DS362)

RESPONSES BY THE UNITED STATES OF AMERICA
TO THE QUESTIONS BY THE PANEL TO THE PARTIES

May 5, 2008

A. CRIMINAL CLAIMS

Q1. Which acts punishable under Articles 213, 214, 215, 217, 218 and 220 of China's Criminal Law does the United States allege fall within the meaning of "wilful trademark counterfeiting or copyright piracy" as used in Article 61 of the TRIPS Agreement? US

1. Articles 213, 214, 215, 217, and 218 of the Criminal Law are the only statutory provisions that provide criminal remedies for "wilful trademark counterfeiting or copyright piracy" under Chinese law. China has confirmed this point in its First Written Submission by explaining that it has "enacted five criminal measures against trademark counterfeiting and copyright piracy" in these specific provisions of the Criminal Law.[1]

2. In particular, Articles 213, 214, and 215 cover acts of "trademark counterfeiting" and Articles 217 and 218 cover acts of "copyright piracy." Article 220 is indirectly a measure for "wilful trademark counterfeiting or piracy" as it affects the scope of application of these provisions. Article 220 provides that if an entity commits a crime under Articles 213-219, "the entity shall be fined and the directly responsible person in charge and other directly responsible personnel shall be punished in accordance with [those provisions]."

3. The United States does not claim in this dispute that, leaving aside the thresholds, there are substantive types or categories of acts that constitute "wilful trademark counterfeiting or copyright piracy" (as those terms are used in Article 61 of the TRIPS Agreement) for which China has failed to make criminal procedures and penalties available under Articles 213, 214, 215, 217, and 218.[2] Rather, the U.S. claim is that through China's thresholds, China has failed to make criminal procedures and penalties available for all acts of "wilful trademark counterfeiting or copyright piracy" that are "on a commercial scale."

Q2. Please refer to the definition of "illegal business operation volume" in Article 12 of the 2004 JI:

(a) Can goods on different premises and infringing acts committed at different times be taken into account in the calculation of this amount regarding the same criminal charge? US

4. In certain circumstances, the first and second paragraphs of Article 12 of the December 2004 JI appear to permit an infringer's goods on different premises and his or her infringing acts committed at different times to be taken into account in the calculation of the threshold for "illegal business volume." Nevertheless, the second paragraph of Article 12 makes clear that the values of "illegal business volume," "illegal gains" and "amount of sales" can only be cumulated

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[1] First Written Submission of the People's Republic of China, para. 20.

[2] *See* First Written Submission of the United States, paras. 101, 106.

if such acts have not received administrative penalty or criminal punishment.[3] Accordingly, if an administrative penalty in a prior seizure action or case is applied (which China admits is often its preferred remedy[4]), this will wipe the slate clean and those prior seizures could not be counted on to meet the thresholds, leaving prosecutors to start their calculations over again.

5. Moreover, whether the "illegal business volume" threshold is calculated based on goods found at different sites and infringing acts committed at different times, or instead based on goods found at one site at one time, it will still create a safe harbor whereby pirates and counterfeiters can conduct their commercial-scale operations, immune from criminal prosecution. Indeed, as described more fully in the U.S. First Submission (*see, e.g.*, paras. 118-122, 134-137) the "illegal business volume" threshold still exempts many acts of trademark counterfeiting or copyright piracy from criminal prosecution or conviction.

(b) Can the US provide the original court decision in the Zippo lighters case, referred to in US-25? US

6. The United States attaches an English translation of the court decision in the Zippo Lighters case to this document as Exhibit US-61.[5]

(c) Is the price of the infringed goods a last option for the calculation of this amount? In what proportion of cases do the authorities use the price of the infringed goods to calculate this amount? CHN

(d) What did the court mean in CHN-15 (the washing powder case) when it referred to a "market price"? Approximately how many pieces of the infringing goods would have been necessary to reach the "serious circumstances" threshold under Article 213 in that case and in CHN-13 (the sport shoes case)? CHN

(e) Does the US object to the use of the price of infringing goods in the assessment of the gravity of an IP crime per se, such as in sentencing, or only where it is used to define a crime? US

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[3] *See* First Written Submission of the People's Republic of China, para. 30.

[4] First Written Submission of the People's Republic of China, paras. 39-43; *see also* Exhibits CHN-132, CHN-133, and CHN-134 (administrative penalty imposed against retail store for distributing pre-release *Shrek 2* DVDs).

[5] The United States has not been able to locate a copy of the Chinese language version of the judgment as of the date of this submission.

7. The United States takes issue in this dispute with China's use of the prices of the infringing goods to the extent that they do not permit prosecution or conviction of activity involving values of products that are below the thresholds but still "on a commercial scale." However, the United States does not take issue in this dispute with the use of prices of infringing goods with respect to assessing the gravity of a crime, such as in sentencing determinations.

8. China's Criminal Law, as further defined by the December 2004 JI and April 2007 JI, precludes criminal penalties or procedures for values or volumes falling below the thresholds. The valuation methodology for meeting certain thresholds uses by default the prices of the infringing goods. For example, the valuation methodology required for the "illegal business volume" threshold is a calculation that is based by default on the prices of the counterfeit merchandise rather than the prices of legitimate merchandise. Therefore, because the prices of the infringing goods are connected to the definition of a crime, this valuation methodology exacerbates the safe harbor problem by creating a larger safe harbor than would exist if China used a valuation methodology based on the prices of legitimate goods.

9. The United States demonstrates in its First Written Submission how basing the calculation on the prices of infringing goods can create added barriers to prosecution or conviction of commercial-scale piracy and counterfeiting.[6] Accordingly, by directing prosecutors and judges to rely by default on the valuation of infringing goods – featuring prices at which counterfeit or pirated goods compete with legitimate goods – the thresholds exclude many acts of commercial-scale piracy and counterfeiting from prosecution or conviction.

Q3. Please refer to the definition of "illegal gains" in Article 17(2) of the 1998 JI:

(a) This definition is stated to apply "herein". Does this refer to the 1998 JI? Is there any written confirmation that it applies to the 2004 JI and 2007 JI? US, CHN

10. The ordinary meaning of the word "herein" in the 1998 JI on Publications appears to support an interpretation that the definition of "illegal gains" in paragraph 2 of Article 17 refers to the 1998 JI on Publications. It appears, however, that based on the terms of the December 2004 JI and April 2007 JI, this definition would likely apply to the "illegal gains" thresholds in the December 2004 JI and April 2007 JI.

11. First, Article 17 of the December 2004 JI does not nullify previous Judicial Interpretations in their entirety. Rather, it states "[s]hould discrepancies arise between this Interpretation and other legal interpretations promulgated previously regarding infringement on intellectual property rights, the previously promulgated interpretations shall not be applied after

[6] *See, e.g.,* U.S. First Written Submission, paras. 119-121.

this Interpretation goes into effect."[7] Similarly, Article 7 of the April 2007 JI states that "[i]n the event of any inconsistencies between prior judicial interpretations and this Interpretation, this Interpretation shall apply."[8]

12. Because there are no provisions concerning the definition of "illegal gains" in either the December 2004 JI or April 2007 JI, there would not appear to be a conflict or discrepancy with the 1998 JI on Publications, and accordingly, the definition of "illegal gains" can be applicable to the December 2004 JI and April 2007 JI. Additionally, the United States notes that China has confirmed in its First Written Submission that "illegal gains" in China's thresholds is considered to be the definition set forth in the 1998 JI on Publications.[9]

(b) Is the price of infringed or genuine goods used in the calculation of illegal gains? CHN

(c) Article 218 refers to a crime of selling. Why is the threshold expressed in terms of "illegal gains" rather than "amount of sales"? CHN

Q4. Please refer to the definition of "amount of sales" in Article 9 of the 2004 JI:

(a) Please provide examples showing the differences in the methods of calculation of this threshold, of illegal business operation volume and of illegal gains? US, CHN

13. The United States notes that the differences in the methods of calculation can be seen from the definitions of these thresholds in the Judicial Interpretations themselves. The method of calculation for "illegal business volume" is defined by Article 12 of the December 2004 JI, while "amount of sales" is to be calculated in accordance with Article 9 of the December 2004 JI. With respect to "illegal gains," the United States refers to Article 17 of the 1998 JI on Publications.

14. In demonstrating how these thresholds exempt many instances of commercial-scale activity, the United States has provided a comparison of these methods of calculation in its First Written Submission.[10]

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[7] Exhibit US-2.

[8] Exhibit US-3.

[9] First Written Submission of the People's Republic of China, para. 22.

[10] *See, e.g.,* First Written Submission of the United States, paras. 127-129 (amount of sales), paras. 118-122 (illegal business volume), and paras. 123-125 (illegal gains).

(b) The definition refers to illicit income obtained "or to be obtained". Does this refer only to outstanding payments for sales already made and not unsold goods? How often do the authorities calculate illicit income "to be obtained" in practice? US, CHN

15. Based upon the text of Article 214 of the Criminal Law and the December 2004 JI, it appears that the phrase "to be obtained" would likely refer to outstanding payments for sales already made. Article 214 of the Criminal Law refers to infringing goods that are "*sold*." (Emphasis added.) Additionally, Article 9 of the December 2004 JI defines the term "amount of sales" as "all the illegal incomes *gained or ought to be gained* by selling commodities bearing counterfeited registered trademarks."[11] (Emphasis added.) Accordingly, a consistent reading of both of these provisions would support an interpretation that "amount of sales" refers to sales that have already been made.

16. The United States is not aware of the frequency with which the Chinese authorities calculate illicit income "to be obtained" in practice.

Q5. Would you consider it appropriate for the Panel to refer to the monetary thresholds in both RMB and a unit reflecting Purchasing Power Parity ("PPP")? US, CHN

17. Because China's thresholds are expressed in the form of RMB – the local currency used in China's marketplace – the thresholds should be assessed in the form that they appear in China's measures; i.e., in terms of Chinese RMB.

18. While the United States does not see a need to refer to the monetary thresholds in PPP units in order to assess their compatibility with the TRIPS Agreement, should the Panel wish to refer to the monetary thresholds in China in both RMB and a PPP unit in its report, the United States would have no objection. The United States would of course also be pleased to provide comments on any specific approach that the Panel might wish to consider.

Q6. Please refer to the threshold expressed in terms of [two Chinese characters] in Article 1 of the 2007 JI. How do the authorities count this threshold with respect to (I) books; (ii) CDs; (iii) DVDs; (iv) HDVDs that contain multiple movies; and (v) other works? US, CHN

19. Article 1 of the April 2007 JI provides that the threshold for "serious circumstances" in Article 217 of the Criminal Law can be met if an infringer reproduces or distributes literary written works, music, movies, television, video recording, or computer software of a total quantity of 500 or more *Zhang* (*Fen*). Based upon information reported by right holders in China, and our understanding of the meaning of the words "*Zhang*" and "*Fen*" in Chinese, we are

[11] *See* Exhibit US-2.

given to understand that authorities will count each physical piece of media (including CDs, DVDs, and HDVDs) or each book as one copy or unit for purposes of meeting the threshold in Article 1 of the April 2007 JI.

Q7. Please refer to CHN-15 (the washing powder case) and CHN-16 (the game cartridges case). Did the courts take into account evidence, such as unfinished products, packaging, boxes, labels and manuals, in the application of the thresholds? CHN

Q8. Please refer to Articles 22 and 23 of the Criminal Law regarding offences of "preparation" and "attempt". Do they permit courts to take into account other physical evidence besides the thresholds, such as unfinished products and packaging? US

20. Articles 22 and 23 of the Criminal Law are general criminal offenses dealing with the offences of "preparation" and "attempt," respectively. Whether or not they apply to a particular crime – such as the crime of infringing intellectual property – would depend on the nature of the crime. Neither the Criminal Law nor the December 2004 JI or the April 2007 JI contains any specific provisions concerning the offenses of "preparation" or "attempt" relating to the *completed crimes* of trademark counterfeiting and copyright piracy.

21. 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. We would note, however, that the cases included in China's First Written Submission that involved conviction under the crime of "attempt" (Exhibits CHN-12 and CHN-14) did not involve a situation where unfinished products or non-infringing packaging were used by the court for that conviction.

Q9. Articles 1, 3 and 5 of the 2004 JI provide that certain requirements can be met by "other serious circumstances" and "other especially serious circumstances". Please explain, with examples, how these provisions can be applied. US, CHN

22. Articles 1, 3, and 5, of the December 2004 JI provide that the phrases "serious circumstances" and "other especially serious circumstances" in Articles 213, 215, and 217 of the Criminal Law can be met by "other serious circumstances" and "other especially serious circumstances," respectively.

23. Given the fact that the December 2004 JI defines "other serious circumstances" and "other especially serious circumstances" in the Criminal Law with what appear to be the same phrase, the United States has sought clarification from China about the meaning of these two phrases since promulgation of the December 2004 JI. In our bilateral discussions, China has not

explained how these phrases are applied by the courts. We also note that China did not provide any information or examples about the meaning of these phrases in its First Written Submission.

24. However, the United States notes that in the case of *People's Procuratorate of Ouhai District v. Zheng Shengfen* (Exhibit US-61), which is cited above, the phrase "other especially serious circumstances" appears to have been implicated. The prosecutor appears to have urged the court to punish the defendant under the "other especially serious circumstances" criterion of Article 1, paragraph 2, item 3, of the December 2004 JI. The defendant was accused of manufacturing counterfeit "Zippo" lighters, and the local Chinese authorities had seized over 32,000 counterfeit lighters from the defendant's warehouse. The prosecutor observed that the case had "serious effects in both domestic and international society." However, the court appears to have rejected this argument because the amounts involved were "very far" from the amounts mentioned in Article 1, paragraph 2, item 1, and instead, using the valuation methodology for the lighters that is mentioned in Exhibit US-25, convicted the defendant under Article 213 of the Criminal Law based upon meeting the "illegal business volume" threshold for "serious circumstances" in Article 1, paragraph 1 of the December 2004 JI.

Q10. Do you agree with the United States' description of the legal basis and binding nature of the Judicial Interpretations at issue as set out in US FWS §§20-24? CHN

Q11. Do all provisions in the Criminal Law that use thresholds such as "serious circumstances", "especially serious circumstances", "relatively large" amounts and "huge" amounts do so to define a constituent element of a crime, or do some provisions use these type of thresholds only as a basis for higher penalties? CHN

Q12. China refers to a threshold under Article 170 of the Criminal Law for the crime of counterfeiting currency (China FWS §125). What legal instrument creates a binding minimum threshold for that crime? Please provide a copy of any Judicial Interpretation that may be applicable to this crime, including under a general provision in the Criminal Law. Does it also apply to Articles 213-220 of the Criminal Law? CHN

Q13. What is the difference in legal effect between the prosecution standards or guidelines in Exhibit CHN-75 and the Judicial Interpretations at issue in this dispute? Do the prosecution standards render prosecution below the amounts that they specify legally impossible? CHN

Q14. With respect to private criminal prosecutions:

(a) Must a public prosecutor agree to prosecute an IP crime at the request of a private party? What is considered "sufficient evidence" under Article 5 of the 2007 JI and Article 170 Criminal Procedure Law before a court must accept the case in accordance with the law? CHN

(b) What percentage of criminal prosecutions of (I) IPR crimes; and (ii) other economic crimes (A) are brought at the request of a private party; and (B) are prosecuted by a private party? CHN

(c) Could China elaborate on why, in its view, lower thresholds could "unleash a large volume of private enforcement actions" (China FWS §38), if victims also have the option of seeking administrative and civil enforcement? CHN

(d) Was there an increase in private prosecutions after China lowered thresholds for IPR crimes in 2004? Please provide data on the rate and number of such prosecutions before and after the lower thresholds entered into force. CHN

Q15. What is the significance of the fact that there appears to be no dictionary definition of "commercial scale" as a single term? US

25. The United States has proposed an interpretation for "commercial scale" in accordance with the customary rules of interpretation of public international law reflected in the *Vienna Convention on the Law of Treaties*.[12] Pursuant to Article 3.2 of the *Understanding on Rules and Procedures Governing the Settlement of Disputes* ("DSU"), these rules apply to the Panel's interpretation of Article 61. The presence or absence of a dictionary definition for the term "commercial scale" as a single term does not alter that interpretive method.

26. At the same time, the absence of a dictionary definition for the term "commercial scale" as a single term certainly undermines China's arguments, which seem to be premised not only on ignoring the customary treaty interpretation analysis but also on treating the term "commercial scale" as though it were a single term with a different meaning from that which results from the customary treaty interpretation analysis.

Q16. Does "commercial scale" vary according to characteristics of markets, products and operators within a market? How can it be related to these considerations? What type of data could be relevant? Does "commercial scale" vary according to different regions within a country? US, CHN

27. The United States has set forth its proposed interpretation for "commercial scale" in accordance with the customary rules of interpretation of public international law.[13] Two features of this term are noteworthy: *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

[12] *See* First Written Submission of the United States, paras. 108-110.

[13] *See* First Written Submission of the United States, paras. 108-110.

to the commercial marketplace – where business-minded IPR infringers take the fruits of their counterfeiting or piracy.

28. Therefore, "commercial scale" must be viewed with reference to the marketplace, as the *scale* of what is commercial necessarily will vary by product and market. Indeed, from personal care products to high-tech electronics to cutting-edge software, what is "commercial scale" can vary from situation to situation according to a number of factors, such as the object of the infringement and the market for the infringed items. Moreover, as markets develop and technology progresses, these changes can alter the realities of the marketplace in meaningful ways, and therefore affect what may constitute "commercial scale." The Internet and e-commerce provide such an example.[14] In the matter at hand, China's fixed numerical thresholds based on prices, amount of sales, copies, or profits fail to capture commercial scale in certain market situations.

29. As a legal matter, the term "commercial scale" in Article 61 encompasses one standard; that is, criminal penalties and procedures must be available for all "commercial scale" trademark counterfeiting and copyright piracy. While the United States does not view any specific types of data as being necessary for defining "commercial scale" in any given situation, relevant factors to consider might include data relating to markets and products. Fundamentally, Members must provide that all "commercial scale" trademark counterfeiting and copyright piracy is subject to criminal penalties and procedures. As some third parties have noted, additional factors that might be relevant in some circumstances could include indicia such as the internet or other means of mass dissemination, a previous history of infringement by the infringer, involvement of organized crime, and the marketing and soliciting of business.[15] Moreover, "a transaction covering only a few and/or low value can still amount to counterfeiting on a commercial scale, depending on the circumstances," such as organizational elements and frequency.[16]

30. With respect to "commercial scale" varying according to different regions within a country, the United States has not been able to identify any specific examples, but would not exclude that possibility.

Q17. Could China specify the specific data to which it refers in the Census statistics (CHN-79)? CHN

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[14] *See* First Written Submission of the United States, para. 149.

[15] *See* Third Party Oral Statement of Canada, para. 7.

[16] Third Party Submission of Japan, para. 18.

Q18. Is it appropriate to consider other laws or regulations in a Member that provide for certain levels of activity to be regarded as commercial, e.g. for the purposes of establishing whether business taxation, registration or liability applies? US, CHN

31. Article 61 of the TRIPS Agreement provides that criminal procedures and penalties must be available in all cases of commercial-scale counterfeiting and piracy. As discussed above in the U.S. response to Question 16, what is "commercial scale" may vary by market and product. In addition, the scope of Article 61 includes counterfeiters and pirates who are engaged in the commercial marketplace.

32. When adopting measures relating to matters such as business taxation, business registration, or liability, Members presumably take account of the policy purposes relating to those topics. Thus, when such measures provide that activities or levels of activity are to be regarded as commercial, the legislative or regulatory judgments made will likely involve the public policies that relate to the topics of the measures and thus may not necessarily be determinative of what is "commercial" in the individual marketplace in the sense of Article 61 of the TRIPS Agreement. We are hesitant therefore to transfer what is commercial for a particular policy purpose and generalize it to another purpose.

33. This is not to say that legislative or regulatory judgments are necessarily irrelevant to an analysis of "commercial scale." A legislative or regulatory assessment that certain activity is "commercial" could be evidence that such activity is also "commercial" in the marketplace, though that would not necessarily mean that activities of a smaller magnitude are not also occurring commercially in the marketplace.

34. We would also note that a comparison to liability under other criminal laws would not be relevant to the assessment of whether a Member meets its obligations under Article 61 to provide for criminal penalties and procedures for wilful trademark counterfeiting or copyright piracy on a commercial scale. For example, China's comparison of its thresholds to other domestic *non-IPR* criminal laws has no bearing on this Panel's assessment of whether China meets its international obligations under *Article 61 of the TRIPS Agreement.*

Q19. What acts of wilful (a) trademark counterfeiting; and (b) copyright piracy; are not "on a commercial scale"? US

35. China has an obligation under Article 61 of the TRIPS Agreement to "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 United States has demonstrated in its First Written Submission[17] that China's criminal thresholds fail to capture many acts of commercial scale counterfeiting and piracy. If the DSB adopts recommendations and rulings that

[17] *See, e.g.*, First Written Submission of the United States, paras. 111-115.

China's thresholds are inconsistent with its obligations under Article 61 of the TRIPS Agreement, then pursuant to Article 19 of the DSU, China will be responsible for bringing its measures into conformity.

36. In order to complete its task of evaluating China's measures and the U.S. claims under the TRIPS Agreement, the Panel is not required to define a level for "commercial scale," nor does it need to provide a list or definition of actions that are not on a commercial scale. The Panel in this dispute can complete its task by examining China's current set of thresholds and providing an assessment of them against China's TRIPS obligations.

37. At the same time, the United States can appreciate that something would be so small as *not* to be "commercial scale" in some circumstances. For an example, we note the following statement in paragraph 10 of Mexico's Third Party submission: "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."

Q20. Please compare and contrast the use of the term "commercial scale" in Article 61 with other uses of that term in the TRIPS Agreement, such as "commercial rental" (Articles 11 and 14.4), "commercial purposes" (Articles 26.1 and 36), "commercial exploitation" (Article 27.2), "commercial terms" (Article 31(b)), "commercial value" (Article 39.2(b)) and "unfair commercial use" (Article 39.3). Is "commercial exploitation" the same as "exploitation on a commercial scale"? US, CHN

38. The term "commercial scale" only appears in Article 61 of the TRIPS Agreement. The United States has set forth our proposed interpretation of "commercial scale" in paragraphs 108 to 110 of the First Written Submission. The U.S. interpretation is based on the well-established principles that govern treaty interpretation in WTO dispute settlement pursuant to Article 3.2 of the DSU. These principles are the customary rules of interpretation of public international law reflected in the *Vienna Convention on the Law of Treaties*.

39. Under these rules, each of the terms referred to in the Panel's questions must be interpreted "in good faith in accordance with the ordinary meaning to be given to the terms of the agreement in their context and in the light of the object and purpose of the agreement." We are not aware of any meaning of the terms mentioned in the Panel's question that would shed light on the meaning of "commercial scale" in Article 61.[18]

40. With respect to the term"commercial exploitation" and the phrase "exploitation on a commercial scale" it is not clear that they would have the same meaning.

[18] In that connection, Members have had different views on the meaning of some of these terms.

Q21. Without necessarily defining the terms wilful "trademark counterfeiting" and "copyright piracy", please explain the meaning of the term "on a commercial scale" in relation to different acts that constitute trademark counterfeiting and different acts that constitute copyright piracy. US, CHN

41. As the United States has noted in its responses to Question 16 above, based on its ordinary meaning, the concept of "commercial scale" in Article 61 extends to those who engage in commercial activities, including retail sales and manufacturing. The Chinese market, including the market for many copyright and trademark bearing goods, is fragmented and characterized by a profusion of small manufacturers, middlemen, and distributors.[19] Moreover, much retail commerce in China appears to be conducted through small outlets.[20]

42. In our First Submission, the United States has provided a number of concrete illustrations of "trademark counterfeiting" and "copyright piracy" relating to "commercial scale" activities. For example, many of these examples illustrate "trademark counterfeiting" and "copyright piracy" in various aspects of the commercial supply chain, including: manufacturing *(see, e.g.,* Exhibit US-25 (counterfeit lighters)); wholesaling, *(see, e.g.,* Exhibit US-24 (counterfeit pens)); and retailing, *(see, e.g.*, Exhibits US-27 and US-31 (counterfeit personal-care products), Exhibits US-33 and US-34 (pirated DVDs of popular movies), Exhibit US-37 (counterfeit golf clubs and pirated software)); and Exhibit US-41 (pirated DVDs, CDs, and VCDs)).

Q22. China refers to the 1988 Model Provisions for National Laws of the WIPO Committee of Experts on Measures against Counterfeiting and Piracy (CHN-43):

(a) Please elaborate on the assertion that "commercial scale" was defined in those Model Provisions "in furtherance of the ongoing TRIPS negotiations" (China FWS §73) in light of the stated aims of those Model Provisions. What other reference was made to them in the TRIPS negotiations besides those cited in China's FWS §§110-111? CHN

(b) Should the explanatory observation in para. 17 of the Model Provisions be read in the context of Article A(1) on manufacturing? How does it relate to Article A(3) on additional acts of counterfeiting and piracy? CHN

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[19] *See* First Submission of the United States, para. 122.

[20] *See, e.g.*, *AT Kearney, 2005 Global Retail Development Index: Destination China* (noting that "[a]lthough the Chinese retail market is huge, it is extremely fragmented, with no dominant organized players. The top 10 retailers hold less than 2 percent of the market, and the top 100 retailers have less than 6.4 percent.") (Exhibit US-29)

Q23. What is the status of the US Department of Justice document contained in Exhibit CHN-77? Please comment on the elements of that document quoted in China's FWS §130. US

43. The Third Edition of Prosecuting Intellectual Property Crimes is the most recent version of the U.S. Department of Justice's manual for federal prosecutors. The Manual is intended for law enforcement training purposes and is an educational tool for prosecutors of federal intellectual property crimes. As the Preface to the Manual makes clear, it does not have any regulatory effect, confers no rights or remedies, and is intended as assistance, and not authority.[21]

44. China's selective quotation from the Manual in paragraph 130 of its First Written Submission is not relevant to this Panel's assessment of whether China's thresholds permit prosecution or conviction of all cases of commercial-scale piracy and counterfeiting. China's thresholds are of an entirely different character than the assistance to prosecutors provided by the Manual.[22]

Q24. Please indicate how many criminal prosecutions and convictions there are annually in your jurisdiction for wilful trademark counterfeiting and copyright piracy involving amounts less than those in the thresholds in China's 2004 and 2007 Judicial Interpretations. US

45. The U.S. Department of Justice, which is the agency of the U.S. Government that is responsible for prosecuting crimes of trademark counterfeiting and copyright piracy, does not track federal intellectual property prosecutions or convictions at a level of detail sufficient to respond to this question. However, the U.S. Department of Justice publishes intellectual property enforcement-related statistics each year, and the United States hereby submits these statistics for FY 2006[23] and FY 2007.[24]

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[21] *See* U.S. Department of Justice, Executive Office for U.S. Attorneys, *Prosecuting Intellectual Property Crimes* (3rd ed. 2006), at xvii (Exhibit US-62).

[22] First Submission of the People's Republic of China, para. 19. (China's thresholds "articulate the minimum level of activity necessary for a proscribed act to be considered a criminal one.")

[23] U.S. Department of Justice, *FY 2006 Performance and Accountability Report*, Appendix F, *available at* http://www.usdoj.gov/ag/annualreports/pr2006/Appd/appd_f.pdf. (Exhibit US-63).

[24] U.S. Department of Justice, *FY 2007 Performance and Accountability Report*, Appendix F, *available at* http://www.usdoj.gov/ag/annualreports/pr2007/appd/p17-46.pdf (Exhibit US-64).

46. The United States also wishes to recall that we do not claim that Article 61 requires Members to prosecute all wilful trademark counterfeiting or copyright piracy on a commercial scale.

Q25. What degree of flexibility, if any, would ensure that the notion of "commercial scale" could be adequately implemented in national law by means of thresholds? Would the US consider it acceptable for China to keep its thresholds if China treated them as guidelines only, or subsumed them under prosecution policy? US

47. The U.S. position is not that the simple fact that China has criminal thresholds leads to an inconsistency with Article 61 of the TRIPS Agreement. Rather, it is that Members must provide for the possibility of criminal penalties and procedures for all commercial-scale piracy and counterfeiting. If a threshold provides a safe harbor from prosecution or conviction of trademark counterfeiting or copyright piracy that clearly takes place "on a commercial scale" – for example, the sale or other distribution of 499 copies of infringing articles – then a Member would not be meeting its obligations under Article 61 of the TRIPS Agreement regardless of the mechanism under which that threshold is maintained.

B. CUSTOMS CLAIMS

Q26. Article 27 of the Customs IPR Regulations (US-5, CHN-88) and Article 30 of the Customs IPR Implementing Measures (US-6, CHN-89) and Customs Announcement No. 16 of 2007 (US-7, CHN-95) differ in certain respects. What is the significance of these differences? US, CHN

48. The United States would refer to the discussion of these three measures in its First Written Submission.[25] Notably, the provisions in the Customs IPR Implementing Measures are promulgated for the purpose of "effectively implementing" the Customs IPR Regulations.[26] Article 30 of the Customs IPR Implementing Measures sets forth more detail than Article 27 of the Customs IPR Regulations about how China Customs must proceed in handling the disposal of goods that it finds to be infringing. Customs Announcement No. 16 of 2007 appears to confirm, and in some respects, elaborate upon the rules promulgated in the Customs IPR Regulations and Customs IPR Implementing Measures.

49. Because the Customs IPR Implementing Measures bind China Customs, the step-by-step process set forth in Article 30 demonstrates how China fails to provide the required authority under Article 59 of the TRIPS Agreement.

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[25] First Written Submission of the United States, paras. 58-61.

[26] Customs IPR Implementing Measures, article 1 (Exhibit US-6).

Q27. What is the normative status of each of Article 27 of the Customs IPR Regulations, Article 30 of the Customs IPR Implementing Measures and Customs Announcement No. 16 of 2007? Do they each create rights for private parties? Can courts cite each of them in their judgements? US, CHN

50. The United States would refer the Panel to our discussion of the Chinese legal system as well as the legal status of the Customs IPR Regulations and Customs IPR Implementing Measures in its First Written Submission.[27] As noted, both of these measures are formal legal measures and are fully binding on Chinese Customs authorities.

51. In terms of their legal hierarchy, the Customs IPR Regulation, an administrative regulation promulgated by the State Council is the highest source of law.[28] The Customs IPR Implementing Measures was promulgated to implement the Customs IPR Regulations, and is considered to be a department rule.[29] Finally, we understand that the Announcement No. 16 2007 of the General Administration of Customs is a regulatory document of the General Administration of Customs for the purpose of implementing Article 27 of the Customs IPR Implementing Measures. While the Announcement is binding on Chinese Customs authorities, it is not a source of law, and thus is the lowest level measure.

52. To the best of our knowledge, these measures do not appear to create civil rights of action for private parties. We are not aware of any bars to a Chinese court citing these three measures in their judgments if presented with the appropriate circumstances; however, the higher source of law will likely carry more weight. And of course, these measures are fully binding on China Customs.

Q28. Does the United States' claim under Article 59 of TRIPS apply both to goods destined for exportation as well as goods destined for importation? Does the United States consider that Article 51 affects the scope of Article 59? US

53. The United States considers that China's measures do not provide China Customs with the required scope of authority provided for under the first sentence of Article 59. At minimum, the United States believes that the first sentence of Article 59 relates to China Customs' authority to dispose of infringing goods that have been imported. The United States takes no position with regard to whether the first sentence of Article 59 also governs border authorities' actions with respect to goods destined for export.

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[27] *See* First Written Submission of the United States, paras. 19-21, 58-61.

[28] *See Trade Policy Review of the People's Republic of China, Report by the Secretariat*, WT/TPR/S/161, circulated 28 February 2006, at para. 21. (Exhibit US-16).

[29] *Id*., at para. 22.

54. With respect to Article 51, both Article 59 and Article 51 are located in Part III, Section 4 of the TRIPS Agreement (Special Requirements Related to Border Measures). Although both Article 51 and Article 59 are "special requirements" relating to border measures, it is not clear that Article 51 affects the scope of Article 59.

55. Article 51 provides that Members "shall, in conformity with the provisions set out below" enable a right holder who suspects the importation of counterfeit trademark or pirated copyright goods to lodge an application with the competent authorities for the suspension by the Customs authorities of the release into free circulation of such goods. The "provisions set out below" include Articles 51-57, which deal with various aspects of the suspension procedures, such as the application (Article 53), the security or equivalent assurance (Article 53), the notice of suspension (Article 54), the duration of the suspension (Article 55), indemnification related to the detention of the goods (Article 56), and a right holder's ability to inspect and procure information (Article 57).

56. Article 59 is clearly a "provision[] set out below" Article 59. Yet, rather than dealing with the right-holder's application to suspend goods that are suspected to be infringing, Article 59 deals with the required scope of authority that must be given to Customs regarding goods that have already been found to be infringing. Therefore, it is not clear whether Article 51 affects the scope of Article 59.

Q29. Could China please provide the statistics on disposal options in CHN-87 (a) broken down into goods destined for importation and goods destined for exportation; and (b) the same data broken down by the number of decisions by Customs and/or shipments rather than by value. CHN

Q30. What differences, if any, are there in the treatment of goods destined for exportation and goods destined for importation? Which of China's case-specific customs evidence concern goods destined for importation? Is the evidence regarding goods destined for exportation illustrative of how the measures operate with respect to goods destined for importation? CHN

Q31. Does the United States take issue with donations to social welfare organizations that have entered into a donation agreement with Customs in accordance with Article 12 of the Law on Donations for Public Welfare, or does the United States only take issue with donations to social welfare organizations covered by Article 17 of that Law? US

57. The United States understands that in some cases China appears to donate seized goods to public welfare organizations pursuant to a donation agreement. We look 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.

58. The United States remains concerned that Customs' delivery of infringing goods to public welfare organizations, under Chinese law, does not ensure that the goods will remain outside the channels of commerce and avoid any harm to the right holder. This concern is highlighted by reference to Article 17 of this Law on Donations for Public Welfare, which appears to specifically authorizes public welfare organizations to sell donated goods on the market if certain circumstances are present. It is not evident whether or how other provisions in this Law affect the operation of Article 17 with regard to the right to sell donated goods on the market if certain circumstances are present.

Q32. Please describe the typical procedural steps leading to a donation of infringing goods by Customs to a social welfare organization. How does Customs select a particular organization for a particular donation? Is Customs obliged to select an organization that has entered into a donation agreement? Does the Memorandum of Cooperation between Customs and the Red Cross in Exhibit CHN-92 satisfy the requirements of Article 12 of the Law on Donations for Public Welfare, so that the Red Cross is covered by Article 18 of that Law? May other social welfare organizations that do not enter into a donation agreement sell donated goods to raise money, in accordance with Article 17 of that Law? CHN

Q33. Does Article 6 of the Law on Donations for Public Welfare create legal obligations for Customs? Can China substantiate its assertions that "the detriment of public interests" under this provision includes health and safety risks posed by infringing goods (China FWS §161) and that the "lawful rights and interests of others" include IPR right holders in practice (China FWS §188)? CHN

Q34. The measures at issue stipulate that auction can take place only after eliminating the infringing features. Why do the measures use different formulations [Chinese characters]? What does Customs actually remove prior to auction with respect to (a) copyright- and related right-infringing goods; (b) patent-infringing goods; and (c) trademark-infringing goods? With respect to trademark-infringing goods, what "infringing features" are there besides the infringing trademark itself? Please provide actual examples with respect to different products. CHN

Q35. How much discretion does Customs enjoy in determining whether the factors mentioned in China's FWS §173 are satisfied? If one of those factors is, objectively, not satisfied, does Customs enjoy a discretion to choose a different disposal option or destruction? Have there been any instances of judicial review of Customs' exercise of this discretion? Please provide any such judicial decisions. CHN

Q36. If a consignment of infringing goods cannot be used for social welfare purposes, the right holder does not intend to buy it, and the infringing features can be eliminated, may Customs destroy the goods? CHN

Q37. Does the United States accept that Chinese Customs may have other options available to it, besides destruction or disposal of infringing goods outside the channels of commerce in accordance with the principles of Article 46 of TRIPS (US oral statement, §55)? US

59. Pursuant to Article 59 and Article 46 of the TRIPS Agreement, as long as China provides its Customs officials with the authority to order goods they have found to be infringing to be destroyed or disposed of outside the channels of commerce in such a manner as to avoid any harm to the right holder, it may also provide other options. The United States does not argue that these TRIPS Agreement provisions *require* China to destroy or dispose of all infringing goods in accordance with the principles in the first sentence of Article 46. The U.S. concerns relate to the constraints created by Chinese measures that *preclude* China Customs officials in certain circumstances from having the authority to act in accordance with Article 59.

Q38. Is it consistent with Article 59 for customs authorities first to have to consider preferred alternatives, and utilize them if they so decide, before exercising their authority to order the destruction or disposal of infringing goods? US

60. A scenario where customs authorities have the free choice to exercise their authority consistent with Article 46 principles, after considering all the options, is not presented by China's measures in this dispute. The United States considers that China's border measures for disposal of infringing goods are inconsistent with the TRIPS Agreement because they do not provide Chinese border authorities with the authority required under TRIPS Article 46 principles, and thus are inconsistent with China's obligations under Article 59.

61. As we stated in the U.S. Oral Statement, "authority" means that China Customs should have the *power* to choose among any of the options – including destruction or disposal outside the channels of commerce 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.[30] Accordingly, it would not be consistent with the principles of Article 46 for Chinese authorities to have to both (1) consider *and* (2) be obliged to use alternative options other than destruction or disposal in accordance with Article 46 principles – before being able to destroy or dispose of the goods in accordance with Article 46 principles.

Q39. Could the United States clarify its view as to why public auction into the channels of commerce is inconsistent with Article 46 of TRIPS (US oral statement, §65)? US

62. The United States considers that China's mandatory public auction procedure does not comport with the principles of Article 46 of the TRIPS Agreement.

[30] U.S. Oral Statement at the First Substantive Meeting of the Panel, para. 55.

63. The first sentence of Article 46 provides 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, 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."

64. First, because China's mandatory auction procedure strips Customs of the authority to prevent auction in certain circumstances, it is inconsistent with Article 46, as a public auction clearly introduces the goods into the channels of commerce and does not dispose of them in a manner that avoids any harm to the right holder.

65. Additionally, the fourth sentence of Article 46 states that "[i]n regard to counterfeit trademark goods, the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce." Nothing about China's customs measures suggests that the auctioning of these goods after removal of the infringing mark is permitted only in "exceptional cases."

Q40. Could the United States clarify its view (US FWS §178) as to how the 4th 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 (emphasis added)? Does the United States consider that the 4th sentence of Article 46 contemplates that, in some circumstances, infringing goods may be released into the channels of commerce? US

66. The fourth sentence of Article 46 provides another principle that China must observe; namely, that counterfeit trademark goods can be introduced into the channels of commerce after removal of the unlawfully affixed trademarks only "in exceptional cases." Accordingly, only in "exceptional cases" may the removal of an unlawfully-affixed trademark be sufficient to release of the goods into the channels of commerce.

Q41. If Chinese Customs had unconditional authority to order destruction in all circumstances, but could choose between destruction and auction in its discretion, would the United States consider that consistent with Article 59 of TRIPS? US

67. The plain text of Articles 46 and 59 requires Chinese Customs to possess the authority – at all times – to order the destruction or disposal outside the channels of commerce in a manner that avoids any harm to the right holder. If the Chinese measures strip China Customs of that authority at any time, this would create an inconsistency with Article 59. However, except with regard to counterfeit trademark goods, if a WTO Member had the unconditional power to order destruction in all circumstances, and the Member could choose between destruction and auction in its discretion, that would appear to be consistent with Article 59 of the TRIPS Agreement. (We note that the fourth sentence of Article 46 would create an additional constraint on the

Member's actions in cases where public auction of counterfeit trademark goods is being contemplated.)

Q42. What is the significance of the fact that Article 59 of TRIPS uses the phrase "in accordance with the principles set out in Article 46", rather than the phrase "in accordance with Article 46"? US, CHN

68. Article 46 of the TRIPS Agreement is contained in Section 2 ("Civil and Administrative Procedures and Remedies") of Part III of the TRIPS Agreement. By its terms, it does not apply to border measures taken by the customs authorities; instead it contains rules that apply to Members' judicial authorities regarding certain remedies for infringement. The use of the phrase "in accordance with the principles" appears to reflect the fact that the actual language of Article 46 applies to Members' *judicial authorities*. The phrase "in accordance with the principles set out in Article 46" therefore is a means to express clearly that the substantive elements in Article 46 (i.e., the principles) will apply to the competent border authorities.

Q43. If Members may implement the obligation in Article 59 of TRIPS by granting the requisite authority in only some circumstances (China's FWS §§195-196) falling within the scope of that provision, is the same true for other provisions in Part III of the TRIPS Agreement that use the phrase "shall have the authority", such as Articles 44 and 45? CHN

C. COPYRIGHT CLAIMS

Q44. Does China acknowledge that Article 4(1) of the Copyright Law denies copyright protection at least to some works? CHN

Q45. China has explained that it protects literary and artistic works from the date on which they are created (FWS §236, §240, §241). China has also explained that Article 4(1) of its Copyright Law would prohibit protection of works which are "completely unconstitutional or immoral" (FWS §243). What triggers the application of Article 4(1)? A court ruling? An administrative action? When would this occur? CHN

Q46. China submits that the process to deny protection under Article 4(1) of the Copyright Law and the content review process "are conducted by different agencies with separate legal authorities" (oral statement, §83). What are these respective agencies and legal authorities? CHN

Q47. What is the difference in the criteria that apply to works that are denied protection under Article 4(1) of the Copyright Law and those that apply under content review? For example, what is the difference in the criteria for a work to be judged illegal because its contents are "reactionary, pornographic or superstitious" (as described

in the opinion of the National Copyright Administration in the Zheng Haijin case, CHN-118, p.1), on the one hand, and the content prohibited by Article 25 of the Film Regulation (US-9, CHN-119), on the other hand? CHN

Q48. The United States refers to an answer that China provided in its TRIPS Council review of legislation in 2002, to support its assertion that Article 4(1) of the Copyright Law denies protection to works that have not obtained content review approval (US FWS §§68-70). Can the United States provide specific examples where works were denied copyright protection simply because they had not obtained content review approval? US

69. The United States has not been able to locate any specific examples at this time. We note that the U.S. claim is based upon the text of Article 4.1 of the Copyright Law – which provides a straightforward denial of copyright protection. The United States would note that, in our First Written Submission, a failure to pass content review was only one of the bases for our claims regarding Article 4.1 of China' Copyright Law.[31]

Q49. Exhibit US-60 contains a copy of a letter from the Supreme People's Court about the *Zheng Haijin* case. The Court's letter indicates that the content of the book was reviewed and approved. Does the US allege (oral statement, §88) that this was carried out pursuant to the content review regulations included in the US Exhibits? Is the United Front Department of the Sichuan Provincial Communist Party Committee an authority empowered to conduct content review under any of the regulations included in the US Exhibits? US

70. The guidance document[32] issued by the Supreme People's Court relating to the *Zheng Haijin* case was dated March 9, 2000. From the facts cited in the document, it appears that the United Front Department of the Sichuan Provincial Communist Party "reviewed the book [at issue] and approved its publication" in May 1994. As the Supreme People's Court notes, "nothing was found in the text of the [book at issue] 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."[33]

71. This book would likely be considered a "publication" under the *Regulations on the Management of Publications*.[34] Under the current text of these Regulations, the Sichuan

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[31] *See, e.g.*, First Written Submission of the United States, paras. 204-207.

[32] Exhibit US-60, emphasis added.

[33] *Id*.

[34] *See* Exhibit US-10.

Provincial Communist Party does not appear to be identified as an authority empowered to conduct content review. These Regulations, however, were promulgated in December 2001 – after the content review at issue took place in the *Zheng Haijin* case. We are given to understand therefore that, at a minimum, the United Front Department of the Sichuan Provincial Communist Party was empowered to conduct content review in 1994 before the current Regulations were enacted.

Q50. The United States refers to an answer that China provided in its TRIPS Council transitional review in 2004 advising that foreign works could be protected prior to obtaining marketing approval, giving the example of pre-release enforcement for Shrek II DVDs (US FWS §239). Can the United States provide any primary sources to show that enforcement action was not carried out pursuant to the copyright protection afforded to that work? US

72. The United States has not been able to locate any specific primary sources at this time. The United States would also observe that it is China's *own statement* at a WTO TRIPS Council meeting that has prompted concern among WTO Members that the protection of China's Copyright Law does not extend to works that have not passed content review.[35] While China has dismissed the summary in the minutes as being "inaccurate,"[36] it is not clear that the Law on Unfair Competition was not used in enforcement. Upon a review of the materials provided by China in its First Submission, we note that NCAC officials were to "act in concert" with authorities from the State Administration of Industry (AIC) during the investigation of pirated *Shrek 2* DVDs.[37] Further, China has stated in its First Written Submission that the AIC will enforce China's Law on Unfair Competition.[38] Accordingly, it is possible that enforcement action was taken under the Law on Unfair Competition, and if so, that could explain the statement that China made to the TRIPS Council.

73. Moreover, more generally, it is unsurprising that no examples of criminal enforcement, or of criminal *non*-enforcement, have been found for the *Shrek 2* case. In its First Written Submission, China states that as part of its enforcement efforts relating to *Shrek 2*, "52 shops received administrative penalties, and 1,140 pirated VCDs and DVDs were confiscated."[39]

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[35] *Minutes of Meeting Held on 1-2 December 2004*, IP/C/M/46, circulated 11 January 2005, para. 203. (Exhibit US-57).

[36] First Submission of the People's Republic of China, para. 270.

[37] *Circular on Investigating and Confiscating the Pirated Audio-visual Products of Shrek II,* Guo Quan Ban [2004] No. 47, at para. 2 (Exhibit CHN-130).

[38] First Submission of the People's Republic of China, para. 270.

[39] First Submission of the People's Republic of China, para. 270 fn. 276.

Therefore, the total number of seized goods from more than 50 commercial entities was 1,140 – collectively (*i.e.*, for all 52 shops taken together), just over the 1,000 copy threshold that was made explicit shortly after the announcement of the *Shrek 2* campaign.[40]

Q51. China indicates that when a work is edited to pass content review, China will protect the copyright in the edited version of the work and "this protection will include enforcement against copies of the unedited version of the work, which infringe the copyright in the edited version." (oral statement, §85) Can China confirm that it does not protect copyright in the unedited version directly, and that it does not protect copyright in the unedited version at all unless there is an infringement of the edited version? CHN

Q52. Please provide additional written comments on the protection of works that fail content review (China oral statement, §86). CHN

Q53. Consider a literary or artistic work the publication and dissemination of which are prohibited by law within the meaning of Article 4(1) of the Copyright Law. Where the publication and dissemination of the work are later permitted, from what point, if ever, does the author enjoy copyright in respect of that work? CHN

[40] *See* December 2004 JI, Article 5 (Exhibit US-2).