

US-China case: Implications for the protection and enforcement of IPRs in China

Dr. Xuan Li

Coordinator

Innovation and Access to Knowledge Programme

South Centre



Outline

I. Background:

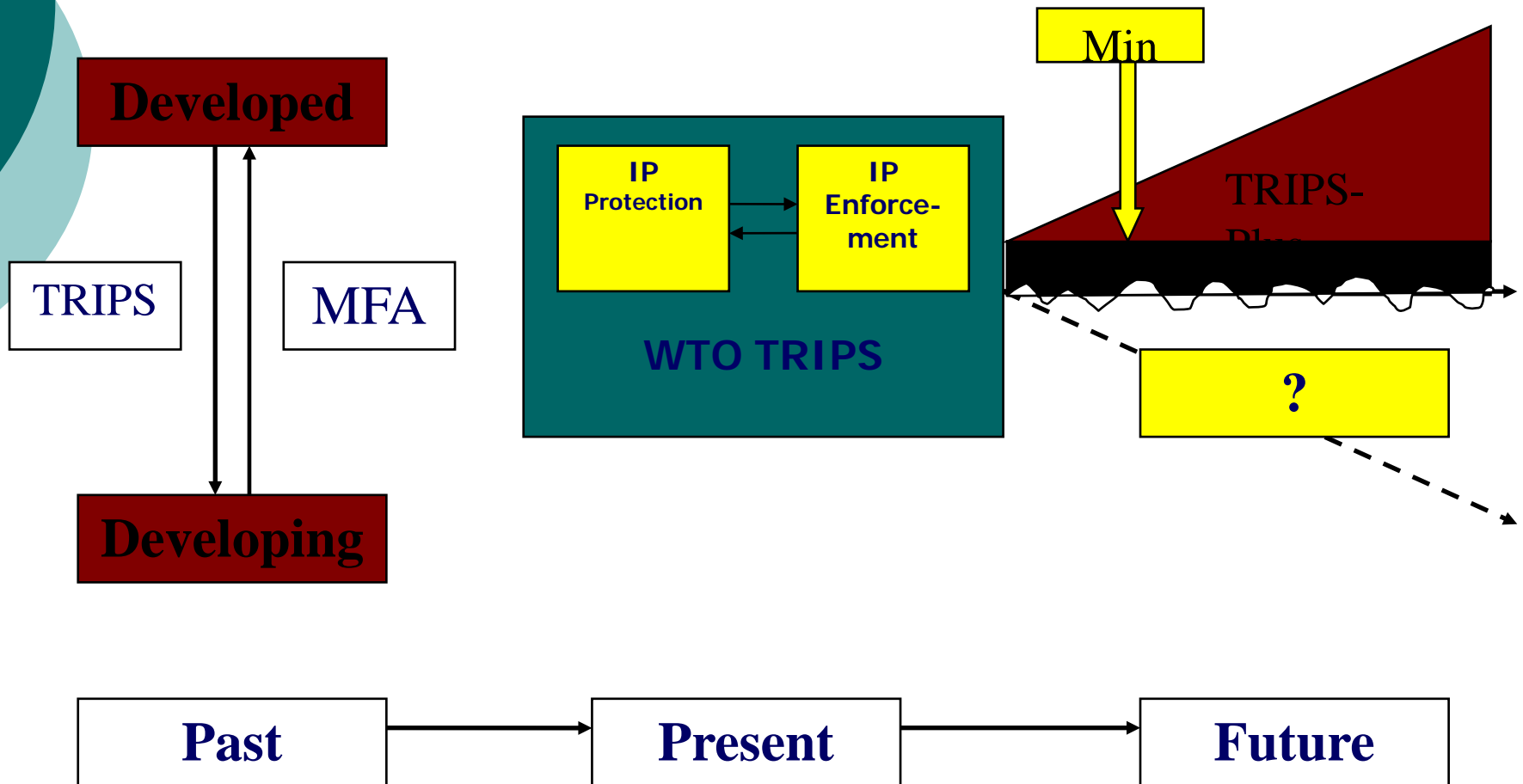
II. Implication of Panel Decision on Customs Measure

III. Implication of Panel Decision on Criminal Measure

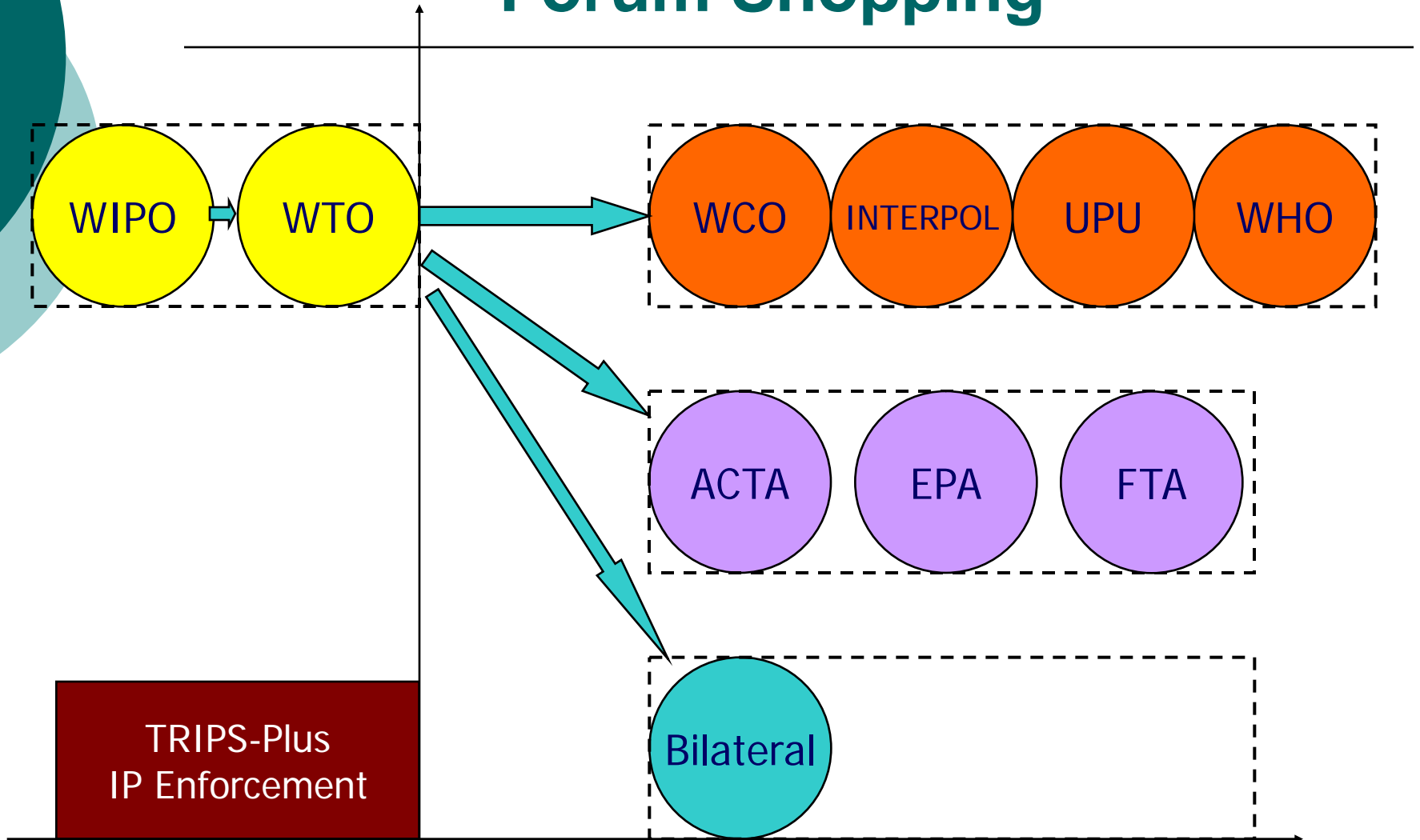


I. Background:

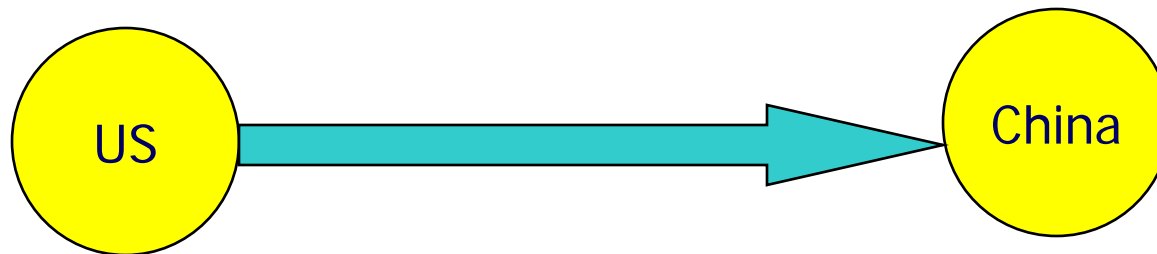
Challenges from the North: TRIPS-Plus



Challenges from the North: Forum Shopping



US-China Case on IP Enforcement



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

2. Disposal of goods confiscated by Customs authorities that infringe IPR

3. Thresholds for criminal procedures and penalties



II. Implication of Panel Decision on Customs Measure

2.1. Key provisions

- ❑ **China's law on Customs measures:**
 - (a) give to charities to use for public welfare
 - (b) selling to the IP holder;
 - (c) auctioning the products with the proceeds going to the state treasury; and
 - (d) destruction.

- ❑ **Key WTO legal provisions :**
 - TRIPS Agreement Article 59
 - TRIPS Agreement 46

2.2. Key Findings

- (a) US “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.”
- (b). Concluded that “the Customs measures are inconsistent with Article 59 of the TRIPS agreement, as it incorporateds the principle set out in the fourth sentence of Article 46.”

2.3. Two-step Examination

- **Step 1:** Interpretation - Set out all of interpretation of the TRIPS provisions;
- **Step 2:** consistency test - Examine the consistency of specific aspects of Chinese Customs measures and TRIPS provision (Article 46)

2.4. Interpretation (1)

(a) “Infringing” goods:

- panel concluded that “there is no obligation to apply for the requirements of Article 59 of goods destined for exportation.”

Interpretation (2)

(b) “Shall have authority”:

- panel explained that this term gives authorities the discretion to take certain actions, and does not require them to do so.

Interpretation (3)

(c) What the principles set out in Art 46?

- The panel examines each sentence of Article 46 and considered that the first sentence of Article 46 sets out the following “principles”:
 1. authorities should have the authority to order disposal or destruction in accordance with the first sentences “without compensation of any sort” and
 2. 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, or
 3. authority shall have the authority to order destruction unless this would be contrary to existing constitutional requirements.

Interpretation (4)

- (d) “outside the channels of commerce in such a manner as to avoid any harm caused to the right holder”,**
- Panel recalled: "disposal of infringing goods outside the channels of commerce, in context, is an alternative to destruction of the goods."

2.5. Implications (1)

(1) Ensure enforcement measure for development:

- Panel found that this provision (Article 59 of TRIPS) does not apply to goods destined for export.)
- Enforcement cost: Impose enormous economic burden on developing countries.
- China should not take additional responsibility of Customs measures beyond TRIPS, e.g., export, in-transit.

Implications (2)

(2) A WTO member should smartly draft own legislation.

- Under Article 46, in the situation where counterfeit trademark goods are being released into the channels of commerce, TRIPS requires more than the simple removal of the trademark, except in exceptional cases.
- Under the Article 59, the authorities shall not allow the re-exportation of the counterfeit trademark goods “in an unaltered state.”
- China should draft/amend the regulation by introducing one or a few other supplementary measures beyond the simply removal the trademark.

Implications (3)

(3) The relationship between general and specific provisions.

- It is clear that the specific provisions must be read together with the general provision
- Linking up the principles and objectives to enforcement provisions can prevent the biased interpretations of any specific enforcement obligation under the TRIPS Agreement.

Implications (4)

- (4) Re-examine the applicability of Article 59 to patent-infringing goods.**
- The panel's ruling regarding the interpretation of infringing goods is not unquestionable.
 - the Panel found that Article 59 applies to "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."



III. Implication of Panel Decision on Criminal Measure

3.1. Criminal Measures

- ❑ **China's law on criminal measures:**
 - China's Criminal Law,
 - Judicial Interpretation No. 19 and Judicial Interpretation No. 6.

- ❑ **Key WTO legal provisions :**
 - TRIPS Agreement Article 61.1:

3.2. Focus of U.S. Claim

- ❑ **The U.S. claim under Article 61:**

The "thresholds" established under Chinese law for prosecuting the counterfeiting of trademarks or pirating of copyrights. Under these thresholds, China's enforcement measures would only apply if the amounts involved were high enough.

- ❑ **Examples:**

"use of a counterfeit trademark," the law covers situations where there is "illegal business operation volume of not less than 50,000 Yuan or the amount of illegal gains of not less than 30,000 Yuan".

3.3. Key Findings on Criminal Measures

- The Panel conclusion: "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." (Para. 7.669)

3.4. Some Reasoning of Panel Decisions

- **Step 1:** Interpretation:
Negotiation history
- **Step 2:** burden of proof/prima facie evidence:
In the criminal prosecution, the prosecutior has the burden of proof presenting prima facie evidence of each element of the crime charged.

3.5. Interpretation and Examination

- (1) First limb of the US claim: concerning the “level and method of calculation of the thresholds”. – panel considered it addressing quantitative issues.
- (2) Second limb of the US claim: concerning the “limited set of numerical tests in the thresholds”. – panel considered it addressing qualitative issues.
- Panel:
 - a. examine the nature of Article 61 obligation.
 - b. Examine the scope of Article 61 obligation.

3.5. Interpretation and Examination

“Commercial scale”:

- a. Panel: commercial scale involve a relative magnitude or extend engaged in buying and selling; recognize that scale of a quantitatively concept, whilst commercial is qualitative.
- b. panel concluded that the term commercial scale to exclude trivial or de minimis activities.”

3.6. Implications (1)

The principle of territoriality:

- TRIPS Agreement does not define what a commercial scale is.
- China should be able to define it in its domestic law.

Implication (2): Understand How Statistics on Counterfeit and Piracy Exaggerated and Biased

1

Extend the definition of counterfeit and piracy
Beyond the scope of definition

- OECD defined counterfeiting and piracy as "terms used to describe a range of illicit activities linked to IPR infringement." which includes "trademarks, copyrights, patents, design rights, as well as a number of related rights."

Implication (2): Understand How Statistics on Counterfeit and Piracy Exaggerated and Biased?

2

Validity of data: Hypothetic assumption without Robust data sources

- **BSA report:**

- Assume the piracy rate of China as stated in the report was 90%, Chinese pirated software would be nearly 10 times of that of real copies.
- If that were the case, the market turnover of the software in China would be close to 4,000 billion yuan (as the output of the software industry was 390 billion yuan), or nearly 25% of China's GDP in 2005, the software market itself would be far larger than the entire Chinese IT market.

Implication (2): Understand How Statistics on Counterfeit and Piracy Exaggerated and Biased?

3

Measurement: Change the unit of measurement depending on the destination

- **How to measure “a case” at EC?** (A seizure case refers to an event where some quantity of counterfeit goods is found and the number of articles appears to be a simple count of the number of items seized.)

Example: How a box containing 20 cigarette by packets of 20 is measured?

- Method 1: $20 * 1 = 20$ cases
- Method 2: $20 * 20 = 400$ cases

Implication (2): Understand How Statistics on Counterfeit and Piracy Exaggerated and Biased?

4

Valuation

- **How developed countries industries associations calculate total loss?**
- **Methodology:**
 - Lost Profit = Price of branded good*number of cases
 - Potential revenue vs. actual value

Thank you!

Contact Details:

Dr. Xuan LI

Programme Coordinator

Innovation and Access to Knowledge Programme (IAKP)

South Centre

E-mail: li@southcentre.org

Tel: +41227918165

Fax: +41 22 7988531

Website: <http://www.southcentre.org>