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

Request for Consultations by the United States

The following communication, dated 10 April 2007, from the delegation of the United States to the delegation of China and to the Chairman of the Dispute Settlement Body, is circulated in accordance with Article 4.4 of the DSU.

My authorities have instructed me to request consultations with the Government of the People's Republic of China ("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.

I. Thresholds for criminal procedures and penalties

The first matter on which the United States requests consultations concerns the thresholds that must be met in order for certain acts of trademark counterfeiting and copyright piracy to be subject to criminal procedures and penalties. In this regard, the measures at issue include:

- (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; and
- (2) measures by the courts and procuratorate that apply throughout China, including 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 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,¹ 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 itself does not define the terms "serious", "especially serious", "relatively large", and "huge" as used in the above-referenced articles. Instead, these terms are defined in the December 2004 Judicial Interpretation and the April 2007 Judicial Interpretation by reference to "illegal business volume" (stated in terms of the value of products produced, stored, transported and sold), "illegal gains" (stated in terms of profit), or number of "illegal copies".

Additionally, where the thresholds are defined in terms of "illegal business volume", Article 12 of the December 2004 Judicial Interpretation provides that value ordinarily is calculated according to "the prices at which such products are actually sold" or "the labeled prices or the actual prices found to be sold at after investigation". In other words, it is the price of the infringing goods as opposed to the price of the corresponding legitimate goods that determines "illegal business volume". The lower the actual or labeled prices of infringing goods, the more of them an infringer can sell or offer for sale without reaching the thresholds in the Criminal Law that are defined by reference to "illegal business volume".

The United States understands that acts of trademark counterfeiting and copyright piracy occurring on a commercial scale in China that fail to meet the thresholds are not subject to criminal procedures and penalties in China. The lack of criminal procedures and penalties for commercial scale counterfeiting and piracy in China as a result of the thresholds appears to be inconsistent with China's obligations under Articles 41.1 and 61 of the TRIPS Agreement.

¹ Such other related measures include but are not limited to 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).

II. Disposal of goods confiscated by Customs authorities that infringe intellectual property rights

The second matter on which the United States requests consultations concerns goods that infringe intellectual property rights that are confiscated by Chinese customs authorities, in particular the disposal of such goods following removal of their infringing features.

In this regard, the measures at issue include:

- (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; and
- (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;

as well as any amendments, related measures,² or implementing measures.

Specifically, the United States understands that 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 customs authorities often appear to be required to give priority to disposal options that would 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 requirement that infringing goods be released into the channels of commerce under the circumstances set forth in the measures at issue appears to be inconsistent with China's obligations under Articles 46 and 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 third matter on which the United States requests consultations concerns the denial of copyright and related rights protection and enforcement to creative works of authorship, sound recordings, and performances that have not been authorized for publication or distribution within China. For example, it appears that works that are required to undergo censorship review (or other forms of pre-publication or pre-distribution review) before entering the Chinese market are not protected by copyright before the review is complete and publication and distribution within China has been authorized.

² Such other related measures include but are not limited to 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.

In this regard, the measures at issue include:

- (1) the Copyright Law,³ 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;⁴
- (3) the Administrative Regulations on Audiovisual Products⁵;
- (4) the Administrative Regulation on Publishing⁶;
- (5) the Administrative Regulations on Electronic Publications⁷;
- (6) the Measures for the Administration of Import of Audio and Video Products⁸;
- (7) the Procedures for Examination and Approval for Publishing Finished Electronic Publication Items Licensed by a Foreign Copyright Owner⁹;
- (8) the Procedures for Examination and Approval of Importation of Finished Electronic Publication Items by Electronic Publication Importation Entities¹⁰;
- (9) the Procedures for Recording of Imported Publications¹¹;
- (10) the Interim Regulations on Internet Culture Administration¹²; and
- (11) the Several Opinions on the Development and Regulation of Network Music¹³;

³ 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.

⁴ 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.

⁵ State Council Order No. 341, adopted at the 50th executive meeting of the State Council on 12 December 2001, promulgated on 25 December 2001.

⁶ State Council Order No. 343, adopted at the 50th executive meeting of the State Council on 12 December 2001, promulgated on 25 December 2001.

⁷ Order No. 11 of the General Administration of Press and Publication (30 December 1997).

⁸ Decree No. 23 of the Ministry of Culture and the General Administration of Customs (17 April 2002).

⁹ 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]).

¹⁰ 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]).

¹¹ 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]).

¹² 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).

¹³ Ministry of Culture (20 November 2006).

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") requires 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.¹⁴ These rights may not be made subject to any formality (Berne Convention Article 5(2)). TRIPS Agreement Article 9.1 requires all WTO Members, *inter alia*, to comply with Articles 1 through 21 of the Berne Convention.¹⁵

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 has not been authorized (and whose publication or distribution is therefore prohibited) appear not to enjoy the minimum standards of protection specially granted by the Berne Convention in respect of those works (and 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). In addition, the 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. The foregoing appears to be inconsistent with China's obligations under TRIPS Agreement Article 9.1.

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 the Copyright Law also denies protection of these rights to performers and producers of sound recordings during the period of any pre-publication or pre-distribution prohibition, 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 provide 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. To the extent that these different processes, taken together with Article 4 of the Copyright Law, result in earlier or otherwise more favourable protection or enforcement of copyright or related rights for Chinese authors' works, Chinese performers' performances (or their fixations) and Chinese producers' sound recordings than for foreign authors' works, foreign performers' performances (or their fixations) and foreign producers' sound recordings, the measures at issue appear to be inconsistent with China's obligations under TRIPS Agreement Article 3.1. Additionally, to the extent that Article 4 of the Copyright Law, independently or in conjunction with the different pre-authorization or pre-distribution processes in the other measures at issue, causes foreign authors of works whose publication or distribution has not been authorized not to enjoy the rights granted to

¹⁴ The minimum standards of copyright protection for literary and artistic works 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).

¹⁵ 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.

Chinese authors, the measures at issue appear to be inconsistent with China's obligations under TRIPS Agreement Article 9.1 (with respect at least to China's obligations to comply with Articles 5(1) and 5(2) of the Berne Convention).

In addition, to the extent that Article 4 of China's Copyright Law, independently or in conjunction with the other measures at issue, makes it impossible for rightsholders to enforce their copyrights or related rights with respect to works, performances or sound recordings that have not been authorized for publication or distribution, China fails to make enforcement procedures available so as to permit effective action against infringements of those copyrights and related rights. This appears to be inconsistent with China's obligations under TRIPS Agreement Article 41.1.

IV. Unavailability of criminal procedures and penalties for a person who engages in either unauthorized reproduction or unauthorized distribution of copyrighted works

The fourth matter on which the United States requests consultations concerns the scope of coverage of criminal procedures and penalties for unauthorized reproduction or unauthorized distribution of copyrighted works. In particular, it appears that unauthorized reproduction of copyrighted works by itself – that is, unauthorized reproduction that is not accompanied by unauthorized distribution – may not be subject to criminal procedures and penalties. Likewise, it appears that unauthorized distribution of copyrighted works by itself – that is, unauthorized distribution that is not accompanied by unauthorized reproduction – may not be not subject to criminal procedures and penalties.

In this regard, the measures at issue include the Criminal Law, in particular Article 217, as well as any amendments, related measures, or implementing measures.

Article 217 establishes the availability of criminal procedures and penalties for certain acts of copyright piracy, including "reproducing and distributing [*fuzhifaxing*] a written work, musical work, motion picture, television programme or other visual works, computer software or other works without permission of the copyright owner" and "reproducing and distributing an audio or video recording produced by another person without permission of the producer".¹⁶

To the extent that wilful copyright piracy on a commercial scale that consists of unauthorized reproduction – but not unauthorized distribution – of copyrighted works, and *vice versa*, may not be subject to criminal procedures and penalties under the law of China, this would appear to be inconsistent with China's obligations under Articles 41.1 and 61 of the TRIPS Agreement.

The United States notes that Article 2 of the April 2007 Judicial Interpretation addresses the phrase "reproducing and distributing" [*fuzhifaxing*], and we look forward to discussing this matter with China during our consultations.

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We look forward to receiving your reply to the present request and to fixing a mutually convenient date for consultations.

¹⁶ Article 218 of the Criminal Law refers to someone who "sells" infringing works. However, it appears that this reference to "sell[ing]" in Article 218 is different from the reference to "distributing" in Article 217.