

ANNEX C

ARGUMENTS OF THE THIRD PARTIES

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ANNEX C-1

EXECUTIVE SUMMARY OF THE THIRD PARTY SUBMISSION BY ARGENTINA

I. INTRODUCTION

1. Argentina has a systemic interest in the proper interpretation of the provisions of the Agreement on Trade Related Aspects of Intellectual Property Rights - TRIPS Agreement –as it is arranged by the Article 3.2 of the Dispute Settlement Understanding which establishes that: "... Recommendations and rulings of the DSB cannot add to or diminish the rights and obligations provided in the covered agreements".

2. Argentina wishes to provide views on three issues related to Articles 61, 41.1, 59, 46 and 9.1 under the TRIPS Agreement as they are interpreted and applied in the present case. These are:

- (a) The thresholds for criminal procedures and penalties.
- (b) The disposal of confiscated goods that infringe intellectual property rights under TRIPS Agreement.
- (c) The alleged denial of copyright and related rights protection and enforcement to works that have not been authorized for publication or distribution within China.

II. LEGAL ARGUMENTS

A. CLAIMS REGARDING THE THRESHOLDS FOR CRIMINAL PROCEDURES AND PENALTIES IN CHINA

1. **China's measures do not appear to be inconsistent with China's obligations under Article. 61 of the TRIPS Agreement**

3. Respectfully, Argentina offers another interpretation of the Article 61, according to which China's measures would not appear to be inconsistent with China's obligations under Article 61 of the TRIPS Agreement. First, it's well established –also in WTO jurisprudence – that the fundamental rules of treaty interpretation are Article 31 "General rule of interpretation" and Article 32 "Supplementary means of interpretation" of the Vienna Convention on the Law of the Treaties. Pursuant to Article 31.1 of the Vienna Convention, we have to interpret in good faith the provisions in accordance with the ordinary meaning given to the terms of the treaty in their context and in the light of its object and purpose. So, reading treaty terms in their context requires that the text of the treaty must, of course, be read as a whole. One cannot simply concentrate on a paragraph, an article, a section, a chapter or a part. It means that, in order to establish the real meaning of Article 61 of the TRIPS Agreement we need to read all the articles of the Agreement and, besides, its preamble and annexes.

4. In this sense, Argentina states that the TRIPS Agreement does not only impose obligations or duties on WTO members, but also grants them an important set of rights.

5. The TRIPS Agreement is often drafted in general terms. Members are not bound by an inflexible set of rules in implementing them. On the contrary, Members have the right to use the flexibility inherent in the Agreement, as well the obligation to meet its minimum requirements.

6. For example, Article 1.1 of the TRIPS Agreement obligates Members to give effect to the provisions of the Agreement. It also provides that Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.

7. In other words, Article 1.1 provides flexibility for Members to implement the TRIPS Agreement in the manner of their own choosing, provided that the specific requirements of the Agreement are met. The implementation of Intellectual Property Law in national legal systems involves choosing between different approaches.

8. Article 61 of the TRIPS Agreement obligates Members to provide criminal penalties for trademark counterfeiting and copyright piracy on a commercial scale, allowing for the possibility of imprisonment and/or fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of corresponding gravity. So, any Member of World Trade Organization, including China, has discretion to follow its own traditions in matters of enforcement.

9. Second, because the enforcement rules of the TRIPS Agreement are unique in the multilateral context, there is little prior international experience. The characteristics of legal systems around the world as regards procedure in civil enforcement matters are rather different, stemming from various cultural and legal traditions. In this sense, uniform methods of implementing the enforcement provisions should not be expected. In other words, China is clearly permitted to approach civil enforcement provisions in a way compatible with its own legal traditions, and to implement the enforcement provisions in a way compatible with its existing constitutional and regulatory framework.

10. Third, related to legal traditions, it is useful to remind that criminal law is of exclusive domain of sovereign jurisdiction. This is the reason why governments are exceptionally subject to international commitments in this field and these exceptional commitments are general obligations that permit discretion regarding implementation.

2. China's measures do not appear to be inconsistent with China's obligations under Article 41.1 of the TRIPS Agreement

11. Respectfully, Argentina offers another interpretation of Article 41.1, according to which China's measures would not appear to be inconsistent with China's obligations under Article 41.1 of the TRIPS Agreement. Again, in order to establish the real meaning of Article 41.1 of the TRIPS Agreement we need to read all the articles of Agreement and, besides, its preamble and annexes.

12. Specially, we need to give attention to Article 1.1 of the TRIPS Agreement that obligates Members to give effect to the provisions of the Agreement and, besides, provides that Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.

13. In fact, Article 1.1 of the TRIPS Agreement provides flexibility for Members to implement the TRIPS Agreement in the manner of their own choosing, provided that the specific requirements of the Agreement are met. The implementation of Intellectual Property Law in national legal systems involves choosing between different approaches.

14. Besides, pursuant to Article 41.2 of the TRIPS Agreement, Members are obligated to ensure that enforcement procedures are fair and equitable.

15. Finally, Article 41.5 of the TRIPS Agreement establishes: "It is understood that this Part does not create any obligation to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general, nor does it affect the capacity of Members to enforce their law in general. Nothing in this Part creates any obligation with respect to the distribution of resources as between enforcement of intellectual property rights and the enforcement of law in general."

16. Respect of this particular point, Argentina desires to highlight the relative character of the obligation contained in Article 41.1. In fact, this obligation is not an absolute obligation. In order to attend the enforcement of intellectual property rights, the Members do not have the obligation of neglect the enforcement of their law in general. This point is particularly important for Argentina, and other countries that, sometimes, suffer limitations of resources to enforce the law in general. During the negotiations of the TRIPS Agreement and foreseeing exigencies like that of the United States, we insisted in the inclusion of this particular limit contained in Article 41.5.

17. During the negotiations of TRIPS, developing countries said that they could not accept to commit scarce law enforcement resources. Argentina and other countries held that enforcement shall include administrative and civil remedies and, in appropriate cases, penalties under criminal law and shall be provide **within the limits of its administrative resources and capabilities**.¹

B. CLAIMS REGARDING THE DISPOSAL OF CONFISCATED GOODS THAT INFRINGE INTELLECTUAL PROPERTY RIGHTS UNDER THE TRIPS AGREEMENT

1. Customs' donations of infringing goods to social welfare organizations do not appear to be inconsistent with China's obligations under Articles 59 and 46 of the TRIPS Agreement

18. The second set of US claims refers to how the Chinese customs authorities must deal with infringing goods seized at the border.

19. On this issue, Argentina is concerned about carrying out a proper interpretation of Article 59. As mentioned in this submission, this interpretation should consider, not only the analysis of this Article *per se*, but a whole understanding, performed in the context of the TRIPS Agreement.

20. As supported by the United States, in Argentina's view, the interpretation of the mentioned provisions set out two equally viable options for customs officials: these are the "disposal" and the "destruction" option.²

21. Notwithstanding that, it must be highlighted that Article 46, while stating the first above mentioned option (the possibility of "dispos[ing] of [the infringing goods] outside the channels of commerce in such a manner as to avoid any harm caused to the right holder..."), vests Member's Customs authorities with considerable discretion to determine what method is the most appropriate on a case-by-case basis.

22. However, despite the discretion granted by first option of Article 46, that Article requires necessarily the fulfillment of two conditions so as to be fully applied. In the first place, the infringing merchandise "...must be disposed of outside the channels of commerce", and secondly, that disposal of infringing goods must be carried out "...in such a manner as to avoid any harm caused to the right holder...".

23. Furthermore, as mentioned in the preceding paragraphs, in Argentina's point of view, the Articles in detail analysed cannot be understood in isolation. The proper criterion must consider these Articles in conjunction with the other TRIPS provisions; specially, letter (c) of its Preamble, Article 1.1 (in Part I, "Nature and Scope of obligations), Article 8.1 (in Part I, "Principles") and Article 41.5 (in Part III, Section 1, "General Obligations").

¹ Communication from Argentina, Brazil, Chile, China, Colombia, Cuba, Egypt, India, Nygeria, Peru, Tanzania, and Uruguay, Negotiating Group on Trade Related Aspects of Intellectual Property Rights, including Trade in Countefeit Goods, MTN.GNG/NG11/W71, circulated 14 May 1990, p. 12.

² United States' first submission, para. 177.

24. As a result, it must be underlined that the TRIPS Agreement considers as an essential objective, not only the reinforcement of trade-related intellectual property rights but also the accomplishment of other subjects; such as the need of improving the standards of living of the Members, especially of the less-developed ones, with special attention to their public health and nutrition concerns. Likewise, it is considered essential to take into account the differences among national legal systems; the consideration that Members are not constrained to adopt specific measures as regards the enforcement; as well as the fact that they are not obliged to apply more extensive protection than the accepted in the Agreement.

25. Having said this, Argentina shall develop one of the possible alternatives pursuant to Article 59 and Article 46: customs' donation of infringing goods to social welfare organizations.

26. In the case at issue ("donation"), the first [1] requirement of Article 46 ("the disposal outside the channels of commerce") would be fulfilled, as the donation of the infringing merchandise implies itself a disposal of goods outside the channels of commerce. On the other hand, the accomplishment of the second [2] requirement of that provision ("the avoidance of harm to the right holder") would need to be determined by customs authorities on a case-by-case basis.

27. For instance, given a particular case, customs should necessarily determine both the suitability of the merchandise for social welfare and the quality of the goods (goods that pose health or safety threats should be rejected). After adopting such a determination, customs officials should diligently exercise its supervising authority, by ensuring that those donated goods were used by social welfare organizations and for social welfare purposes.³ Given this screening activity, it would be groundless to assert, as the United States did, a hypothetical harm to the right holder's reputation, since "shoddy" "defective" or "dangerous" goods" would not be donated to welfare institutions.⁴

28. On the other hand, in Argentina's point of view, it is totally baseless the assertion of the United States in the sense that "nothing appears to prevent public welfare organizations from selling the infringing goods they receive [...], thus moving these goods back into commerce". Since we are referring to social welfare organizations, and by definition they do not develop a lucrative activity, to support that assertion would be totally erroneous.

29. Finally, the United States, while analysing the viability of this measure, support that only one formulation would be satisfactory: "[...][w]here the donation to charity is an option, and the donation has the right-holder's consent [...]".⁵ As supported by China, Argentina believes that "[...]this assertion vastly exaggerates the scope of the TRIPS obligation to avoid harm to the right-holder[...]"⁶

C. CLAIMS REGARDING THE DENIAL OF COPYRIGHT AND RELATED RIGHTS PROTECTION AND ENFORCEMENT TO WORKS THAT HAVE NOT BEEN AUTHORIZED FOR PUBLICATION WITHIN CHINA

1. China's measures could be inconsistent with China's obligations under Article 9.1 of the TRIPS Agreement.

30. In Argentina's point of view, the text of Article 4 creates a relationship between the prohibition of publication or distribution and the protection provided by the Chinese Copyright Law.

³ China's first submission, para. 160.

⁴ United States' first submission, para. 186.

⁵ United States' first submission, para. 185.

⁶ United States' first submission, para. 185.

31. The text of Article 4 of the Chinese Copyright Law is straightforward, and creates doubts about its consistency with the Article 9.1 of TRIPS Agreement. Probably, Article 4 could need to be re-redacted in order to avoid, in certain cases, the possibility of being interpreted as a disguised restriction on international trade.

32. In fact, the TRIPS Agreement substantive provisions on copyright involve incorporated provisions of the Berne Convention – Article 1 through 21 and the Appendix. And, China and the United States are Members of the Berne Convention.

33. The Berne Convention rests on three basic principles. Firstly, there is the principle of national treatment. Secondly, there is the principle of automatic protection. Thirdly, there is independence of protection.

34. The principle of national treatment is established in Article 5(1) of the Berne Convention:

"(1) Authors shall enjoy, in respect of the works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted under this Convention."

35. Because of the second principle of automatic protection national treatment is not dependent on any formality. Articles 5(2) of the Berne Convention are quite straightforward: Protection is granted automatically and is not subject to the formality of registration, deposit, authorization, or the like. In relevant part, Article 5(2) states:

"(2) The enjoyment and the exercise of these rights shall not be subject to any formality..."

36. Notwithstanding, the first sentence of Article 4 of the Chinese Copyright Law provides as follows:

"Works the publication or the distribution of which is prohibited by law shall not be protected by this Law".

37. So, this Article appears to deny to works which are prohibited or not permitted, the protection established in Article 10, 46 and 47 of the Chinese Copyright Law. It is necessary to remember that Article 10 of the Chinese Copyright Law contains the rights enumerated by the Berne Convention, and Articles 46 and 47 provide civil, administrative and criminal liability for copyright infringement.

38. So, Article 4 of the Chinese Copyright Law excludes from Copyright Protection the works whose publication or distribution is prohibited by law.

39. Anyway, this does not imply that China has no right, under the TRIPS Agreement or the Berne Convention, to prohibit the publication or distribution of certain kind of works. In fact, Article 17 of the Berne Convention contemplates such possibility.

III. CONCLUSION

40. Argentina wishes that the preceding observations will prove useful in the deliberations of the Panel and reserves its rights to make further observations in the oral hearing.

ANNEX C-2

EXECUTIVE SUMMARY OF THE THIRD PARTY SUBMISSION BY AUSTRALIA

I. INTRODUCTION

1. This submission addresses some issues relevant to the interpretation of the provisions of the TRIPs Agreement at issue. The submission focuses on:

- the meanings of "criminal", "wilful", "trade mark counterfeiting", "copyright piracy", "commercial scale" and "sufficient to provide a deterrent" in, and the character of the obligations created by, TRIPs Article 61;
- the meaning of "the channels of commerce" in TRIPs Article 46, and how it relates to TRIPs Article 59; and
- the meaning of "any formality" in Article 5(2) of the Berne Convention.

2. Australia reserves its position in relation to any issue not addressed in this submission.

II. TRIPS ARTICLE 61

3. Article 61 requires (1) that a WTO Member "shall provide for criminal procedures and penalties to be applied at least in cases of wilful trade mark counterfeiting or copyright piracy on a commercial scale", and (2) that the "remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent ...". To understand the character of the obligations intended to be created by Article 61, this submission first considers the meanings of "criminal", "wilful", "trade mark counterfeiting", "copyright piracy", "commercial scale" and "sufficient to provide a deterrent".

4. Australia considers "criminal procedures" to mean procedures initiated by or on behalf of the state¹ to punish offences against the common well-being. Depending on the gravity of the offence, such proceedings may lead to punishment in the form of imprisonment and/or a fine, although other forms of punishment may be available in some circumstances.

5. "Wilful", in context, establishes that any intentional action that results in trade mark counterfeiting or copyright piracy is potentially encompassed by the scope of Article 61.

6. Although "trade mark counterfeiting" is not defined in the TRIPs Agreement, its meaning can be determined having regard to:

- the nature of a trade mark in accordance with TRIPs Article 15.1;
- the right required to be granted to the owner of a registered trade mark in accordance with TRIPs Article 16.1;
- the ordinary meanings of the word "counterfeit", the relevant verb, in context; and
- the meaning of "counterfeit trade mark goods" in footnote 14(a) to the TRIPs Agreement.

¹ Australia notes that, in some WTO Members, criminal procedures can be initiated by or on behalf of "the state" at sub-national level.

7. In Australia's view, "trade mark counterfeiting" should be understood to be the unauthorised use in the course of trade of a sign, or a combination of signs, that is identical to or that cannot be distinguished in its essential aspects from a registered trade mark when the sign is applied in relation to goods or services for which the trade mark is validly registered.

8. "Copyright piracy" is not defined in the TRIPs Agreement, but its meaning can be determined having regard to:

- the rights required to be granted in literary and artistic works in accordance with the Berne Convention as incorporated by TRIPs Article 9.1;
- the rights required to be granted in computer programs and compilations of data in accordance with TRIPs Article 10;
- the rental rights required to be granted at least in respect of computer programs and cinematographic works in accordance with TRIPs Article 11;
- the rights of performing artists in their performances in accordance with TRIPs Article 14.1, of producers of phonograms in their phonograms in accordance with TRIPs Article 14.2 and of broadcasting organizations in their broadcasts, in accordance with TRIPs Article 14.3 (the "related rights");
- the ordinary meaning of the word "piracy" in context; and
- the meaning of "pirated copyright goods" in footnote 14(b) to the TRIPs Agreement.

9. In Australia's view, "copyright piracy" concerns any copyright or related right. Copyright piracy includes at least the unauthorised reproduction and/or distribution of copies of material in which copyright or a related right exists.

10. Article 61 applies to wilful trade mark counterfeiting or copyright piracy on a "commercial scale". Historically, "commercial scale" in relation to counterfeiting or piracy has been understood to mean generally a level of activity involving multiple copies of protected signs or material, undertaken for the purposes of financial reward. However, the advent of digital technology has facilitated the unauthorised copying and distribution of protected signs and material, leading to the emergence of different types of infringing activity:

- for financial reward, such as where multiple counterfeit or pirated copies are made and sold in pursuit of profit;
- for commercial advantage, such as where a business exceeds its software licence conditions in terms of numbers of copies of, or employees granted access; and
- that has a substantial prejudicial impact on the copyright owner, for example, where digital copyright material is uploaded and then shared using peer-to-peer file sharing technology.

11. There is no express dictionary definition of "commercial scale". That said, Australia notes the ordinary meaning of the word "commercial" incorporates within its scope matters *affecting* a commercial activity in pursuit of a financial reward. Australia notes too that the ordinary meaning of "scale" in context incorporates the notion of a comparative assessment.

12. In Australia's view, the ordinary meanings of the individual words "commercial" and "scale" require that "commercial scale" be understood in context as encompassing any act or series of acts of

trade mark counterfeiting or copyright piracy that adversely affects the financial rewards available to a right holder within a Member's territory.² The ordinary meanings of the words "commercial scale" considered in context either individually or together do not:

- implicitly restrict the indicators that may be used to assess whether infringing activity is on a commercial scale; or
- compel a requirement that a person engaging in an infringing activity must receive a financial return from that activity, or a financial return of a particular magnitude; or
- compel a requirement of multiple infringing acts.

13. Moreover, having regard to the different types of infringing activity set out above, it is Australia's view that the issue of whether wilful counterfeiting or piracy is "on a commercial scale" can only be determined case-by-case in a criminal procedure that can take account of all relevant circumstances, including the potential impact of digitally-based technologies.

14. Australia considers "sufficient to provide a deterrent", in context, to mean adequate to actively discourage others from acting (in a particular way) because of the likely consequences.

15. Having considered the meanings of some the individual terms of Article 61 in their context, we now turn to the character of the obligations created by TRIPs Article 61.

16. Article 61 establishes extraordinary obligations on a Member in cases of enforcement actions concerning "wilful trade mark counterfeiting or copyright piracy on a commercial scale". It obliges a Member to make intentional acts of counterfeiting or piracy that substantially affect a right holder's financial interests in a protected sign or material in relation to that Member's territory subject to criminal procedures and penalties.³

17. Article 61 obliges a Member to include imprisonment and/or monetary fines among the available remedies that may be imposed as a result of a criminal procedure in cases of "wilful trade mark counterfeiting and copyright piracy on a commercial scale". Article 61 also requires that a Member ensure that the terms of imprisonment and/or levels of monetary fines that can be imposed are adequate to deter similar future activity. A further requirement of Article 61 is that the penalties that are imposed are consistent with the level of penalties applied for crimes of a corresponding gravity.

18. Article 61 creates an obligation of result, i.e., a Member must put in place penalties that are sufficient to actively discourage others from engaging in acts of wilful trade mark counterfeiting and copyright piracy on a commercial scale. Moreover, a Member must actively prosecute and punish such acts, or the effectiveness of the available penalties as a deterrent will be diminished. Whether the available punishments "are sufficient to provide a deterrent" within the meaning of a Member's obligation under Article 61 is an assessment to be made by the Member having regard to the circumstances prevailing in its territory. Nevertheless, it is open to another Member to challenge the

² In that regard, Australia endorses the statement that "... the concept of 'commercial scale' extends both to those who engage in commercial activities in order to make a 'financial return' in the marketplace, and who are, by definition, therefore operating on a commercial scale, as well as to those whose actions, regardless of motive or purpose, are of a sufficient extent or magnitude to qualify as 'commercial scale' in the relevant market." (United States first submission, para.110).

³ Australia notes that it is open to a Member to provide for a higher standard of protection to be applied in other cases of infringement of intellectual property rights pursuant to the final sentence of Article 61 and/or to TRIPs Article 1.1.

adequacy of a Member's remedies to achieve the deterrent effect required by Article 61 under the dispute settlement provisions of the TRIPs Agreement.

III. "THE CHANNELS OF COMMERCE" AND TRIPS ARTICLE 59

19. Article 59 provides that, in relation to the cross-border movement of goods, competent authorities are to have "the authority to order the destruction or disposal of infringing goods in accordance with the principles set out in [TRIPs] Article 46". In Australia's view, the "principles set out in Article 46" include that infringing goods be disposed of "outside the channels of commerce in such a manner as to avoid any harm caused to the right holder".

20. The ordinary meanings of the individual words "channels" and "commerce" are sufficiently broad in scope that the phrase "the channels of commerce" should be understood in context as meaning any activity relating to the supply or transfer of goods in pursuit of financial reward. Such activities can be connected with any aspect of the supply chain, from manufacture to point of sale. Australia notes that "the channels of commerce" can include the Internet, for example, for the distribution of both digitally-based and physical products.

21. Australia notes that the first sentence of TRIPs Article 44 requires that the judicial authorities of a Member have the authority "... to prevent the entry into *the channels of commerce* in their jurisdiction of imported goods that involve the infringement of an intellectual property right, *immediately after customs clearance* of such goods." In Australia's view, that obligation establishes that, as a minimum requirement, the boundaries of "the channels of commerce" in relation to a Member's territory must be considered to commence "immediately after customs clearance".

22. Understanding the meaning of "the channels of commerce" to be any activity relating to the supply or transfer of goods in pursuit of financial reward within a Member's territory is consistent with the final sentence of Article 46, which concerns a Member's obligations in relation to infringing activity within its territory. The fact that the simple removal of a counterfeit trade mark is rarely likely to be sufficient to permit release of the underlying goods into "the channels of commerce" confirms the scope of the meaning to be given to that expression. Those goods can still cause harm to a right holder within a Member's territory, for example, by saturating the market and reducing demand for the genuine article.

23. Moreover, Australia considers that the final sentence of Article 59 supports its view of the meaning of "the channels of commerce" in Article 46. Other than in exceptional circumstances, a Member is obliged not to allow the re-export of infringing goods in an unaltered state but is not, for example, precluded from allowing the re-export of infringing goods from which a counterfeit sign has been removed. The difference in a Member's obligations concerning treatment of the underlying goods according to whether the infringing goods are being dealt with within a Member's territory or at the border reflects that goods being re-exported are not entering "the channels of commerce" in that Member's territory.

24. Having regard to the principles set out in Article 46, Article 59 requires that a Member's customs or other competent authorities concerned with border measures have the authority to order the destruction of infringing goods, or the disposal of those goods in such a manner as to avoid any harm being caused to the right holder in "the channels of commerce".

25. Article 59 requires, in effect, that a Member's competent authorities be able to order that infringing goods be destroyed or be disposed of in such a manner that the goods do not enter "the channels of commerce" within that Member's territory. Such disposal methods could include recycling or donation to a charity within a Member's territory, provided the infringing goods are not likely to enter "the channels of commerce" as a result.

IV. THE MEANING OF "ANY FORMALITY" IN ARTICLE 5(2) OF THE BERNE CONVENTION

26. By virtue of TRIPs Article 9.1, WTO Members are required to comply with Article 5(2) of the Berne Convention. Article 5(2) provides in relevant part that "[t]he enjoyment and the exercise of these rights shall not be subject to any formality; ...".

27. Article 5(2) prohibits the enjoyment and exercise of rights in a protected work being subject to any prior legal or administrative procedure, such as registration of the work or approval of its content. Australia notes, however, that Article 17 of the Berne Convention expressly reserves to a Member the right to permit, control or prohibit the circulation, presentation or exhibition of a work or production.

ANNEX C-3

ORAL STATEMENT BY AUSTRALIA

1. Thank you for this further opportunity for Australia to present its views on the issues raised by this dispute.
2. For the first time in respect of several of the enforcement provisions of the TRIPs Agreement, this panel will have to clarify those provisions in accordance with customary rules of interpretation of public international law, as required by Article 3.2 of the DSU. In this regard, Australia notes that the Appellate Body has previously observed:

"... The ordinary meaning of a treaty term must be ascertained according to the particular circumstances of each case. Importantly, the ordinary meaning of a treaty term must be seen in the light of the intention of the parties 'as expressed in the words used by them against the light of the surrounding circumstances'.^[...]¹
3. Australia has set out in its written submission its views on how some of the terms in the provisions at issue should properly be interpreted.
4. In particular, Australia has noted that Article 61 of the TRIPs Agreement establishes more onerous obligations in respect of "wilful trade mark counterfeiting or copyright piracy on a commercial scale". Australia does not consider that the scope of a Member's obligations in respect of such activity is limited or otherwise tempered by Articles 1.1 or 41.5 of TRIPs. Those provisions relate to a Member's rights in relation to the method of implementation of its obligations under the TRIPs Agreement, but do not affect the character of a Member's obligations under Article 61, or indeed any other provision.
5. Australia would of course be pleased to provide responses to any questions that the Panel may have.

¹ *EC –Chicken Cuts*, Appellate Body Report, WT/DS269/AB/R, WT/DS286/AB/R, paragraph 175.

ANNEX C-4

EXECUTIVE SUMMARY OF THE THIRD PARTY SUBMISSION BY BRAZIL

I. INTRODUCTION

1. Brazil's comments in this dispute will be provided in view of its systemic interests concerning the issues raised by the parties and the findings to be developed by the Panel. Being the first dispute focused on Part III of the *Agreement on the Trade-Related Aspects of Intellectual Property Rights* (the "TRIPS Agreement"), this Panel's conclusions could have a significant impact on the balance of rights and obligations inherent to the TRIPS Agreement. Brazil is of the view that nothing in this dispute should alter TRIPS' finely negotiated balance or expand its current coverage.

II. ARGUMENTS

A. CONSIDERATIONS ON THE FLEXIBILITIES OF THE TRIPS AGREEMENT

2. In its first written submission, the United States opts for a selective approach to the TRIPS Agreement provisions that seems to ignore overarching provisos, such as Articles 1.1, 7, 8, 41.5 and the preamble itself, which provide the broader framework under which the TRIPS Agreement is meant to be implemented.

3. Additionally, the United States apparently seeks, through the use of the World Trade Organization ("WTO") dispute settlement mechanism in this case, to expand the scope of certain treaty terms and provisions, suggesting that the Panel should adopt expansive interpretations of the treaty, thereby extrapolating actual coverage, and encroaching upon Members' room for regulating these particulars through their national legislations. From a systemic perspective, this gives rise to several concerns, particularly to developing Members.

4. The interpretations and thresholds that the United States asks the Panel to follow seem intended to alter the scope of the TRIPS Agreement, eliminating flexibilities that were deliberately embedded in the TRIPS Agreement by a decision of Members, and that constitute an integral part of the negotiating process and agreed outcomes of the Uruguay Round single undertaking. In Brazil's view, the Panel's role is to *clarify* the existing provisions, as limited and mandated by Article 3.2 of the Dispute Settlement Understanding ("DSU"), and not to go beyond, filling in and establishing parameters that are intentionally not provided in the TRIPS Agreement exactly because they were left to be defined by domestic legislations, in light of each Members' specificities.

5. Where the TRIPS Agreement does not settle certain issues or further defines specific terms, that is because Members so intended. From Brazil's perspective, acceptance of certain United States' arguments would add to Members' current obligations under TRIPS. The Panel should not concede to arguments that are based on extrapolations or expansive interpretations of the negotiated TRIPS Agreement text, and should make every effort to preserve the overall integrity of the Agreement, including its balance of rights and obligations and built-in flexibilities.

6. The fundamental and overarching tenet that permeates the TRIPS Agreement is Article 1.1, by which Members (i) are not obliged to implement in their law more extensive protection than is required by the TRIPS Agreement and (ii) are free to determine the appropriate method to implement the provisions of the TRIPS Agreement within their own legal system and practice. Along similar lines, Article 41.5 also establishes that under Part III there is no obligation to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general.

7. The concept of "enforcement" in the TRIPS Agreement is – to a considerable extent – to be understood as making available, for example, "fair and equitable" proceedings¹, which take place entirely within the ambit and rule of the national legislations of Members. Accordingly, Brazil is of the position that the Panel's task should be to analyze China's compliance with the minimum standards embodied in the TRIPS Agreement, refraining from applying its provisions without due consideration to the Agreement's overall context, object, purpose and flexibilities. Such crucial elements must be borne in mind, because the TRIPS Agreement itself recognizes that the treaty's implementation (i) does not take place in a void or in a single uniform legal, economic or social space², indicating that the implementation of TRIPS is to be shaped by specificities of national contexts, subject only to the test of consistency with the treaty provisions and (ii) is framed by the general principles, rules, disciplines, exceptions, limitations and flexibilities provided for by the Agreement. This is in keeping with the territorial nature of intellectual property rights and the sovereignty of States to legislate and enforce.

8. Therefore, in analysing China's measures *vis-à-vis* the TRIPS Agreement, the Panel should not lose sight of the fact that China (i) is not required to grant more extensive protection than the one foreseen in the Agreement, (ii) has discretionary authority to choose - in view of its legal system and practice - the appropriate method to implement the provisions of TRIPS and (iii) is neither obliged to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general; nor to distribute resources as between enforcement of intellectual property rights and the enforcement of law in general.

B. THE TRIPS AGREEMENT IS NOT ONLY ABOUT INTELLECTUAL PROPERTY RIGHTS PROTECTION AND ENFORCEMENT

9. The United States' arguments seem to contend that the TRIPS Agreement is all (or only) about protecting intellectual property rights. This is half true.

10. From a broader perspective, the TRIPS Agreement does not deal exclusively with intellectual property rights *protection*. Rather, it is built upon several balances, in which intellectual property rights protection is one of the elements. Indeed, provisions related to development, competition, transfer of technology, limitations and exceptions to rights, flexibilities, and a finely negotiated level of "legal permissiveness" in areas where Members retain their legislative policy space are also an integral part of the TRIPS Agreement.

11. One of the reasons for such architecture is the special nature of intellectual property rights. As a general rule, intellectual property is protected by a wide array of national laws, including civil, administrative and criminal procedures, in which Members' domestic legislation play a fundamental role. This is why, ever since the early stages of the negotiations, Brazil was of the position that enforcement measures under a new agreement should take the form of general principles³ and "should take fully into account the specific nature of intellectual property rights, in that they constitute a matter of regulation by national legislations. (...) It should be accepted, as a principle, the recognition of countries' geographic, political, legal, and economic conditions, among others, under which their national enforcement system operates. In particular, the difficulties of developing countries in terms of fulfilling possible obligations should be recognised. Possible final commitments should not result in excessive material burden for the agencies responsible for the enforcement of intellectual property rights in those countries".⁴

¹ TRIPS Agreement, Articles 41.2 and 42.

² TRIPS Agreement, Articles 7 and 8.

³ China's first written submission, paragraph 93, footnote 97.

⁴ Exhibit CHN-53.

12. In Brazil's standpoint, (i) the mandate under which the TRIPS Agreement was negotiated, (ii) the wide divergence of views during those negotiations as to what the new agreement should amount to, and (iii) the need to recognize countries' specificities and to preserve the singular nature of intellectual property rights protection led to the conception of a multilateral instrument that can be characterized as a "framework agreement".

13. It is for no other reason that the TRIPS Agreement – especially Part III - bears provisions that are not always strict or prescriptive. Instead, it has built-in flexibilities, which allow for Members to implement the Agreement through discretionary measures at the national level. Thus, the lack of definition of some concepts - such as "commercial scale", "copyright piracy" and "trademark counterfeiting" - referred to by the TRIPS Agreement was not unintentional. Such absence should be interpreted in light of the flexibilities permitted by the TRIPS Agreement. Being a "minimum standard" instrument, there is no obligation under TRIPS Agreement for a Member to adopt higher levels of protection.

14. In other words, Brazil considers that the claims made in the present dispute and the provisions involved therein – i.e., Articles 9.1, 14, 41.1, 46, 59 and 61 – should be analysed in light of the overarching principles and provisions governing the TRIPS Agreement. The specific obligations claimed by the United States are subsumed in the overall balance negotiated by Members and subject to the other aspects of intellectual property rights.

C. TRIPS AGREEMENT'S MINIMUM STANDARDS ON CRIMINAL THRESHOLDS

1. The scope of "commercial scale" in Article 61 of the TRIPS Agreement

15. Both the United States and China have identified two relevant elements for the definition of the expression "commercial scale", i.e. the agent's motivation (subjective element) and the amount or value of merchandises involved (objective element).

16. The United States' approach seems to be that if either of the elements is present in the context "of wilful trademark counterfeiting or copyright piracy", the conduct shall be subject to criminal procedures and penalties. China disagrees and seems to argue that the subjective aspect, i.e. the agent's motivation, is irrelevant.

17. Brazil would like to submit a third possible approach. First of all, it is useful to recall once again that the TRIPS Agreement provides minimum standards that Members shall adopt for the enforcement of intellectual property rights. In Brazil's opinion, both the subjective and objective elements are relevant for the determination of which conduct the TRIPS Agreement requires WTO Members to criminalise. The wording of Article 61 seems to leave little room for the argument that the agent's motivation alone shall suffice for its conduct to be considered "wilful trademark counterfeiting or copyright piracy *on a commercial scale*". On the one hand, the word "scale" inevitably invokes notions such as those of "order of magnitude" or "quantitative parameter". The provision should not be construed as demanding that WTO Members criminalise profit seeking infringement that involves the possession or sale of *any* amount of counterfeited or pirated goods. Both the text and the negotiating history of Article 61 suggest that profit seeking infringement of a non-significant magnitude is not part of the universe of conducts which are required to be criminalised pursuant to the TRIPS Agreement.

18. On the other hand, the expression "commercial scale" cannot be plausibly interpreted as including non-commercial, large-scale infringement of copyrights or trademarks either. The Panel should avoid embracing an interpretation of Article 61 that would disregard the term "commercial" and would not be faithful to the text of this provision. The word "commercial" cannot be properly

understood without due consideration to the idea of profit. The purpose of obtaining financial gains is the core of its meaning and should not be neglected.

19. In conclusion, Brazil considers that Article 61 establishes a two-pronged minimum standard, where both the subjective and objective elements must be factored in. What Article 61 requires is that WTO Members provide criminal procedures and penalties at least for wilful trademark and copyright infringements that involve profit seeking motivation and significant amounts of infringing goods. Neglecting either the word "commercial" or "scale" would not be supported by the "effectiveness principle", according to which meaning and effect must be given to all the terms of a treaty⁵.

2. Remedies that provide a deterrent

20. Both the United States and China seem to restrict the debate about penalties to the appropriateness of thresholds for criminal prosecution and imprisonment. However, the text of Article 61 itself makes it clear that imprisonment is only one of the penalties that shall be made available and shall be able to deter illegal conduct.

21. Since the second sentence of Article 61 includes "monetary fines" as one of the possible remedies for the conduct WTO Members are required to criminalise, it could be argued that the key issue concerning low-level infringement, regardless of the formal definition the Member ascribes to the procedures involved (criminal or administrative), is whether the remedies available provide a deterrent against further infringement or not.

22. Brazil submits that, pursuant to this reasoning, the Panel should incorporate to its analysis an examination of whether first, the monetary fines and other remedies available under Chinese law for below-threshold wilful trademark counterfeiting and copyright piracy are able to discourage further infringement; and, second, the remedies other than imprisonment established for trademark counterfeiting and copyright piracy are similar to those applied for infractions of a comparable gravity.

23. The ultimate objective of Article 61, and Part III of the TRIPS Agreement, is that intellectual property rights be protected. If protection is afforded by remedies that are less costly and less socially disruptive than imprisonment, it would be nonsensical to require a Member to re-label its procedures and to consider that it is not in compliance simply because, according to its own legal system, certain WTO-prescribed remedies are available under provisions that are domestically characterized as administrative (and not criminal).

D. TRIPS AGREEMENT'S MINIMUM STANDARDS ON THE DISPOSAL OF INFRINGING GOODS

1. Principles of Article 46 incorporated by Article 59

24. In Brazil's view, Article 59, read together with Article 46, establishes the obligation that WTO Members grant their competent authorities the power to dispose of infringing goods outside the channels of commerce or order their destruction. The treaty does not establish that such authority has to be unconditional.

25. Further, it should be underscored that Article 46 indicates that harm to the right holder must be avoided. This provision should not be construed as requiring a WTO Member to ensure that absolutely no harm ever happens to the right holder following disposal of infringing goods. What it

⁵ See, e.g., Appellate Body Report, *Japan – Alcoholic Beverages II*, WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R, p. 12, Panel Report, *US - Gasoline*, WT/DS2/R, p. 23.

requires is that infringing goods are disposed of in a manner that is commensurate to the objective of preventing harm to the right holder from arising.

26. Therefore, in addition to the disposal methods described in Article 46, first sentence, WTO Members are allowed to make use of an unspecified range of disposal options that can be authorized, provided that first, the disposal option be employed in a way that avoids harm to the right holder; and, second, "[i]n regard to counterfeit trademark goods, the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce."

27. In light of the above, Brazil respectfully submits that WTO Members may allow their competent authorities to release infringing goods into the channels of commerce, provided that: (a) these authorities also have the authority to destroy or dispose of such goods outside the channels of commerce; (b) the authorities avoid harm to the right holder, irrespectively of disposing of the infringing goods into or outside the channels of commerce; and (c) the limitation set forth in Article 46, last sentence is observed.

2. Conditional authority to order the destruction of infringing goods

28. In this dispute, the United States seems to equal "authority to destroy" to "obligation to destroy" and yet defines "authority" as requiring a significant degree of discretion. Indeed, the United States' arguments with regard to this issue appear to be somewhat paradoxical. In general, the less discretion a public agent enjoys, the closer its authority will be to a legal obligation. Conversely, more discretion means the authority has more leeway to choose not to follow the prescribed conduct in light of specific circumstances.

29. Brazil notes, however, that "discretion" and "authority" are not synonyms nor is the former a precondition for the latter. Non-discretionary acts by public agents can also be regarded as derived from their authority under the law. From an administrative law perspective, discretionary and non-discretionary acts are equally within the scope of the public authority that ultimately stems from the Member's Constitution.

30. The facts presented by both parties seem to suggest that the competent Chinese agency has the authority, yet conditional, to order the destruction of seized infringing goods. In Brazil's view, even if the degree of discretion were minimal, the authority to destroy would still exist, provided that it is so established in the appropriate legal rules. The level of discretion enjoyed by competent authorities, along with possible conditions attached to the application of its powers, do not concern the existence of authority itself, but pertain to the way authority is exercised. Article 59 of TRIPS does not prescribe (i) which competent authorities must be entitled with the mentioned authority and (ii) how exactly such authority should be exercised. This is so because the Agreement left to the Members the necessary flexibility to determine how such a provision shall be implemented, in light of the respective national legislation and practice.

III. CONCLUSION

31. Brazil appreciates the opportunity to comment on some of the issues at stake in this proceeding, and hopes the viewpoints furthered in this submission may assist the Panel in its decision.

ANNEX C-5

ORAL STATEMENT BY BRAZIL

1. Brazil appreciates the opportunity to present this oral statement as a third party in the current proceedings. In its third party submission, Brazil stressed the systemic relevance of this dispute and presented its views on the importance of the overarching principles and flexibilities that govern the intellectual property protection regime under the WTO. In addition, Brazil's submission analysed issues relating to TRIPS' minimum standards on criminal thresholds and on the disposal of infringing goods.
2. Brazil's oral statement will address one aspect of the present dispute that was not dealt with in our written submission, i.e., the notion of "automatic and immediate protection of copyrights" allegedly mandated by the *Berne Convention for the Protection of Literary and Artistic Works*.
3. Before addressing the "automaticity" issue, allow me first to make a general remark concerning an observation made by the United States in its first written submission. In paragraph 195, the United States affirms that "copyright arises immediately upon a work's creation". It is the Brazilian view that such affirmation should be interpreted with caution, since it gives the false impression that copyright protection is unconditional and absolute and depends on one exclusive factor: the creation of a work. This is not so.
4. Copyright may *not* arise immediately upon a work's creation. Indeed, countries *can* - and some do - condition the granting of the copyright protection. Article 2.2 of the Berne Convention, for instance, allows national legislation to prescribe that protection will be granted upon *fixation* to some material form, rather than upon the *creation* of the work.
5. This caution note being registered, Brazil would like to focus its statement on the notion that - despite accruing "upon the creation of a work", understood with the caveat made before - such protection does not take place in the void, by an *automatic* application of the Berne Convention alone, irrespective of countries national legislation.
6. The United States purports that, according to Article 5(2) of the Berne Convention, a work would acquire copyright protection "immediately and automatically".¹ China, by its turn, does not dispute such a characterization. Rather, it complements that, under its Copyright Law, "*in full compliance with Berne Article 5(2)*, copyright vests *automatically* and is recognized without administrative formality".²
7. China has specifically based the notion of "automaticity" of rights, not upon the Berne Convention directly, but upon its own national law: "under Chinese law".³ However, the United States references to *automaticity* and *immediateness* of rights are general in nature, paving the way for an interpretation that the Berne Convention provides for rights that are automatic and immediate, irrespective of national legislations.
8. Although Brazil would agree with the United States that protection of literary and artistic works under the Berne Convention are not to be conditioned by "formalities", Brazil cannot acquiesce

¹ United States' first written submission, para. 195.

² China's first written submission, para. 253, emphasis added.

³ China's first written submission, paras. 237, 245.

to the view that the Berne Convention prescribes that copyrights shall arise "automatically" and "immediately", regardless of what countries' national legislation will rule on the matter.⁴

9. Brazil disagrees with such a characterization. The letter of the Convention and its negotiating history clearly evidence that the *principle of automatic protection*, as the World Intellectual Property Organization defines it, should be understood and limited to the fact that copyright protection is not conditional upon compliance with any formality⁵, such as registration, deposit and the like.⁶ The Berne Convention bears no such "automaticity". Actually, no form of the word "automatic" appears in any of its substantive articles.

10. Quite the opposite, in several opportunities in this same Organization and elsewhere the United States itself has firmly asserted that "automaticity" in intellectual property-related issues runs counter to the "foundational notion that intellectual property rights are territorial and that rights have to be established and asserted under the laws of the country where protection is being sought".⁷ Consistent with this line, the Director of the United States Patent and Trademark Office has stated that

"there is no such thing as an 'international copyright' that will automatically protect an author's works in countries around the world. Instead, copyright protection is 'territorial' in nature, which means that copyright protection depends on the national laws where protection is sought".⁸

11. Therefore, in Brazil's opinion, the Panel should not concur with the parties' interpretation of Berne Convention Article 5(2), to the extent they imply that there may be "automatic and immediate" rights accruing from the Convention independently of what national legislations may dispose. Equal caution, as previously indicated, should be used when dealing with the assertion that "copyright arises immediately upon a work's creation".⁹

12. This concludes Brazil's oral statement. We will be pleased to answer any questions the Panel may have.

⁴ United States' first written submission, paras. 195-225.

⁵ See http://www.wipo.int/treaties/en/ip/berne/summary_berne.html#f2, last visited on 8 April 2008.

⁶ See Handbook on Intellectual Property/WIPO, at

<http://www.wipo.int/about-ip/en/iprm/pdf/ch5.pdf#berne>, last visited on 8 April 2008.

⁷ See United States' intervention at the TRIPS Council in Special Session, document TN/IP/M/14.

⁸ See <http://www.uspto.gov/web/offices/dcom/olia/copyright/copyrightrefresher.htm>, last visited on 8 April 2008.

⁹ United States' first written submission, paras. 11 and 195.

ANNEX C - 6

EXECUTIVE SUMMARY OF THE THIRD PARTY SUBMISSION BY CANADA

I. INTRODUCTION

1. Canada is participating in this proceeding because of its role as a significant producer of intellectual property and because of its systemic interest in the interpretation of TRIPS. It is Canada's position that: (1) China's Criminal Law and its December 2004 and April 2007 judicial interpretations are inconsistent with TRIPS Articles 61 and 41.1; (2) Article 27 of China's Regulations for Customs Protection of Intellectual Property Rights and Article 30 of China's Implementing Measures are inconsistent with TRIPS Articles 46 and 59; and (3) China's measures denying copyright-related rights protection to works that have not been authorized for publication or distribution in China are inconsistent with TRIPS Articles 9.1, 14, 41.1 and 61.

A. THRESHOLDS FOR CRIMINAL PROCEDURES AND PENALTIES

1. First sentence of TRIPS Article 61

2. China's Criminal Law, as judicially interpreted, is inconsistent with the first sentence of TRIPS Article 61. It sets arbitrary thresholds that incorrectly assume that the term "commercial scale" means high-scale, industrial production. Given that the drafters of TRIPS did not use this term, it can be inferred that the term "commercial scale" has a broader meaning.

3. The term "commercial scale" relates to counterfeiting and piracy undertaken with a view to profiting. This interpretation gives meaning to both the words "commercial" and "scale". It recognizes that profit is the objective of commerce and can be achieved by reproducing or selling large quantities, or by reproducing or distributing small quantities with high margins, in many cases using laptop computers. Factory assembly-lines are not needed. China overlooks these economic realities by associating the term "commercial scale" with industrial-scale production.

4. The World Intellectual Property Organization has indicated that quantity and the will to make a profit are factors to be taken into consideration in determining whether counterfeiting or piracy is on a commercial scale. China's arbitrary quantitative thresholds confer no discretion on the authorities to make a qualitative determination based on the circumstances of each case.

5. A person who wilfully reproduces or distributes hundreds of counterfeit or pirated copies for thousands of dollars in sales revenue and profits would, by any objective measure, be infringing on a commercial scale, especially in China where annual Gross Domestic Product per capita is just US\$2,500 and 57 million people earn less than US\$125 per year. Yet Article 217 of China's Criminal Law, as judicially interpreted in April 2007, for example, only allows the Chinese authorities to apply criminal procedures and penalties where the illegal gains exceed RMB 30,000 (US\$4,155), illegal business volume exceeds RMB 50,000 (US\$6,925), more than 500 pirated copies have been reproduced and distributed, or there are undefined "other circumstances of a serious nature". A person caught with 499 pirated copies worth RMB 49,999 (US\$6,924) –more money than most Chinese earn in a year – cannot be prosecuted in China.

6. As China's thresholds are meant to be applied cumulatively, the Chinese authorities would need to keep track of a person's inventories, identity and activities, and share information across Chinese jurisdictions. Knowing this, infringers may evade the law by keeping up to 499 pirated copies worth no more than RMB 49,999, in several locations or at different times. Thus China's thresholds may inadvertently facilitate wilful infringement on a massive scale.

7. Canada empathizes with China's concern about scarcity of enforcement resources, but the first sentence of TRIPS Article 61 does not go so far as to require Members to prosecute every case of wilful trademark counterfeiting and copyright piracy on a commercial scale. It does require Members at least to be in the position to prosecute such cases. The problem with China's thresholds is they totally preclude the Chinese authorities from ever being able to exercise prosecutorial discretion in a given case of wilful infringement on a commercial scale.

2. Second sentence of TRIPS Article 61

8. China's thresholds are inconsistent with the second sentence of TRIPS Article 61. Rather than deterring commercial-scale infringement, China's thresholds provide infringers clear parameters for committing wilful trademark counterfeiting or copyright piracy with immunity.

3. TRIPS Article 41

9. China's thresholds make it impossible for the Chinese authorities to apply criminal procedures and penalties in many cases of wilful counterfeiting and copyright piracy on a commercial scale. The fact that a plethora of counterfeit and pirated goods continues to be produced, reproduced and distributed in China, and exported from China, makes it clear that China does not provide effective action against wilful acts of infringement on a commercial scale and does not provide remedies that deter further infringements, contrary to TRIPS Article 41.1.

B. DISPOSAL OF CONFISCATED GOODS

1. TRIPS Article 59 and the first sentence of TRIPS Article 46

10. To meet the obligation of TRIPS Article 59, Members must give their competent authorities the powers set out in TRIPS Article 46 as soon as it has been established that the goods infringe intellectual property rights. Yet China's competent authority acquires the requisite powers only after other disposal options have been explored or, in some cases, not at all.

11. Article 27 of the Regulations of China for Customs Protection of Intellectual Property Rights and Article 30 of China's Implementing Measures establish a general hierarchy of requirements for the Chinese customs authority to dispose of infringing goods. At each step, the Chinese customs authority lacks the power to order the destruction of the infringing goods or their disposal outside the channels of commerce, or both.

12. In the case of infringing goods that could serve social welfare purposes, China's measures generally preclude the Chinese customs authority from ever having the power to order their destruction. Instead, China's measures generally require the Chinese customs authority to donate the goods to social welfare bodies, which might in turn sell the goods to raise proceeds for their social welfare activities and, in so doing, release the goods into the channels of commerce where they will harm the right holder.

13. In the case of other infringing goods, the Chinese customs authority only acquires the power to order their destruction after other disposal options harmful to the right holder have been exhausted. The Chinese customs authority must first offer the goods for sale to the right holder, failing which the Chinese customs authority may generally dispose of the goods by way of auction if the infringing feature can be easily removed. This puts the right holder in an impossible situation because purchasing the goods causes it financial harm and refusal to purchase them runs the risk that the goods will be released into the channels of commerce.

14. China has not demonstrated a constitutional impediment to conferring the power to order the destruction of infringing goods on its competent authorities from the outset. Also, China's measures do not empower competent authorities to order the disposal of infringing goods in a manner that will not harm the right holder, such as empowering them to give the infringing goods to the right holder for no charge.

2. TRIPS Article 59 and the fourth sentence of TRIPS Article 46

15. The TRIPS Article 46 prohibition on releasing counterfeit goods after simply removing the infringing feature directly and unambiguously relates to the disposal of infringing goods. As such, it is a principle of disposal of infringing goods that, by way of TRIPS Article 59, competent authorities must follow. Yet China's measures provide that, once the right holder refuses to purchase infringing goods that could not be used for a social welfare purpose, the Chinese customs authority must auction the goods if the infringing feature can easily be removed. The auction may proceed even if the right holder strenuously objects.

C. DENIAL OF COPYRIGHT-RELATED PROTECTION AND ENFORCEMENT

1. TRIPS Article 9.1

16. China's Copyright Law is inconsistent with Article 5(1) of the Berne Convention. Article 4 of China's Copyright Law expressly provides that "Works the publication and dissemination of which is prohibited by [Chinese] law shall not be protected by this Law". China admits that this refers to works, including those of the Berne Copyright Union, that the Chinese authorities find unconstitutional or immoral, and that these works are not protected in China.

17. Article 2 of China's Copyright Law provides that a foreigner's copyright under an international treaty between the foreigner's country and China shall be protected "in accordance with this Law" (i.e., China's Copyright Law). Clearly, China's commitments under the Berne Convention have no direct effect, but instead are available only to the extent provided for by China's Copyright Law. Thus Article 4 of China's Copyright Law seems to take precedence.

18. China's measures are inconsistent with Article 5(2) of the Berne Convention. China seems to have laid down in its national laws the administrative obligation for exporters or importers to obtain approval to publish and distribute the work in China such that, if not fulfilled, it will lead to the loss of copyright or copyright-related protection. In particular, Article 2 of China's Copyright Law provides copyright protection irrespective of publication to "Chinese citizens, legal entities or other organizations", not those from other countries.

2. TRIPS Article 14

19. For the same reasons, China's Copyright Law is also inconsistent with TRIPS Article 14.1 and 14.2 in relation to performances and sound recordings.

3. TRIPS Article 41.1

20. Given that China's Copyright Law does not apply to banned works, none of the enforcement procedures required under TRIPS Article 41.1 can apply.

4. TRIPS Article 61

21. By operation of Article 4 of China's Copyright Law, criminal procedures and penalties in cases of copyright piracy do not apply to banned foreign works. The right holder has neither civil nor criminal recourse.

II. CONCLUSION

22. Canada respectfully submits that the Chinese measures are inconsistent with TRIPS.

ANNEX C-7

ORAL STATEMENT BY CANADA

I. INTRODUCTION

1. Mr. Chairman, distinguished Members of the Panel, I would first like to express Canada's appreciation to the Panel and the Secretariat for their work in this dispute.
2. Canada will briefly address in its oral submission all three issues in dispute: China's criminal thresholds, disposal methods, and denial of copyright to prohibited works. These arguments are set out fully in Canada's written submission.

II. CRIMINAL THRESHOLDS

3. Regarding China's criminal thresholds, China and two third parties have contended that criminal law is the exclusive domain of sovereign states, and that TRIPS Article 1.1 provides Members with flexibility in implementing TRIPS. This is true, but beside the point. It is one thing to choose the appropriate method of implementing an obligation to which a sovereign state has agreed, and another to implement such obligation. Canada echoes the view best articulated by Korea that this dispute is not about discretion, but about deviation from a treaty obligation.
4. In Canada's view, the crux of this part of the dispute is the proper interpretation of the term "commercial scale" in TRIPS Article 61. China's criminal thresholds rest upon an assumption that the term relates to quantity – the quantity of illegal copies, illegal gains, and so forth. China has explained its view that "commercial scale" means industrial production; that is, it seems, large quantities such as one would find coming off a factory assembly-line.
5. China's interpretation of "commercial scale" is not tenable for at least two reasons.
 - (a) The drafters of TRIPS did not choose to use the term "industrial scale" or "industrial production". Evidently they meant something else.
 - (b) China's interpretation focuses on "scale" without regard for "commercial".
6. Canada shares the view of the United States and many of the third parties that the word "commercial" relates to the concept of striving for financial gain. Thus, the term "commercial scale" relates to infringement of such magnitude that the motive of the infringer is to carry on a profitable business. As the World Intellectual Property Organization has observed, infringement on a commercial scale cannot simply be determined by large quantities.¹ Profit can be achieved by producing and selling small quantities at high margins. This is especially true today with non-industrial, personal digital technology.
7. Indeed, there may be few illegal copies and/or only small gains but also non-quantitative indicia of wilful infringement for the purpose of profiting. Such indicia may include the use of the internet or other means of mass dissemination, the presence of equipment and input materials for the creation of additional copies, a previous history of infringement by the infringer, the involvement of organized crime, the marketing and soliciting of business, and so forth. In the circumstances, the existence of one or more of these qualitative factors, notwithstanding few copies or small gains, may convince the Chinese authorities that there is wilful infringement on a commercial scale. However, the authorities cannot prosecute.

¹ See Exhibit CHN-43.

8. Hypothetically, if China's interpretation of "commercial scale" were indeed correct and infringement on a "commercial scale" relates – the will to profit aside – simply to infringement in large quantities, as defined by China, China's thresholds would still be inconsistent with TRIPS Article 61. The thresholds are so high that even infringement in quantities that an objective observer would deem large is not subject to criminal procedures and penalties. For example, China does not consider the sale of 499 pirated videos worth over US\$6,000 – which is more than twice as much as the average Chinese citizen earns in an entire year – to be sufficiently large scale.

9. As set out in the United States' first written submission, there are massive quantities of counterfeit and pirated goods available for purchase in China. This massive infringement is facilitated by China's thresholds, which create safe harbours for persons to carry out commercial-scale infringement with immunity from criminal procedures and penalties. Not only are these thresholds inconsistent with TRIPS Article 61, they are also inconsistent with the obligation of TRIPS Article 41.1 to effectively remedy and deter infringement.

III. DISPOSAL OF CONFISCATED GOODS

10. TRIPS Article 59, read with TRIPS Article 46, incorporates the requirement to give competent authorities (1) the power to order the disposal of goods outside the channels of commerce in a manner that avoids harm to the right holder; or (2) the power to order the destruction of the goods. China's competent authority lacks these powers in certain situations.

11. Where the goods could serve a social welfare purpose, China's competent authority is compelled to give them to a social welfare body. Where they cannot serve a social welfare purpose, the competent authority has two options: either it must sell the goods to the right holder or, if the infringing feature can be easily removed and an auction is feasible, it must auction them – even if the right holder objects. The competent authority can order their destruction only as a last resort when nobody wants to buy them or the infringing feature cannot be easily removed.

12. Besides destroying them, obvious ways to dispose of goods outside the channels of commerce without harming the right holder are to give them to the right holder or to recycle them. However, these are not options for China's competent authority for at least three reasons:

- (a) Donating goods to social welfare bodies for their own use may provide assistance to those bodies. However, it also gives rise to the risk that these bodies will not use the goods themselves, but rather sell them, thereby releasing them into commerce. Indeed, the Chinese law identified in US Exhibit 59 expressly permits the social welfare recipient to sell the goods to raise income. Not only is the law on its face inconsistent with TRIPS, the Chinese have deemed it necessary in the case of at least one donation to establish a side agreement making the donation conditional on the social welfare body not releasing the goods into the channels of commerce (I refer to the donation to the Red Cross discussed in paragraph 165 of China's first written submission.). Unfortunately, once released into commerce these counterfeit goods will compete with the right holder's goods and undermine its reputation.
- (b) China's competent authority's next option, namely selling the goods to the right holder, imposes an unjustified financial burden on the right holder.
- (c) Selling the goods by way of auction or otherwise to third parties would, by definition, mean releasing them into the channels of commerce where, again, they will harm the right holder by competing with its legitimate goods.

13. Destroying the goods or giving them to the right holder would be more appropriate than any of these Chinese options and would meet the TRIPS requirement of not causing harm to the right holder.

14. Canada also observes that the fourth sentence of TRIPS Article 46 is a principle of disposal. Thus it is incorporated into TRIPS Article 59. In this regard, China has not demonstrated how the auctioning of counterfeit goods after removing the infringing feature is applied only in exceptional cases, as is required by TRIPS Article 46.

IV. DENIAL OF COPYRIGHT PROTECTION

15. Lastly, Canada agrees that Members can prohibit the publication and distribution of works. However, Members do not have a right to deny copyright protection to them. The problem with Article 4 of China's Copyright Law is that it denies copyright protection to prohibited works, contrary to TRIPS Article 9.1.

V. CONCLUSION

16. In conclusion, Mr. Chairman, Canada shares the view of the United States that China's measures do not conform with TRIPS and must be brought into conformity with it. I would be pleased to answer any questions that the Panel might have later.

ANNEX C-8

EXECUTIVE SUMMARY OF THE THIRD PARTY SUBMISSION BY THE EUROPEAN COMMUNITIES

I. INTRODUCTION

1. The European Communities makes this third party written submission because of its systemic interest in the correct interpretation of TRIPS Agreement and the DSU.

II. INTERPRETATION OF ARTICLE 61 TRIPS

2. The European Communities disagrees with a number of China's arguments relating to the interpretation of Article 61 TRIPS. The European Communities does not see any reason why the interpretation of Article 61 TRIPS should follow a different standard than the one which the DSU foresees in Article 3.2, 2nd sentence DSU for the interpretation the covered agreements. The European Communities notes that neither Article 61 TRIPS nor any other provision in the WTO Agreements provide for an exception to Article 3.2, 2nd sentence DSU. Nor is the European Communities aware of the existence of a customary rule of treaty interpretation that provides for a divergent interpretation standard when it comes to obligations relating to criminal procedures or penalties. The European Communities fails to see any relevance of China's references to the Hague Convention, the Brussels Convention, issues relating to inter-state cooperation on criminal matters within the United States, the Rome Statute of the International Criminal Court, UN Security Council Resolution 1373 or an ECJ judgment on the scope of the EC competence for determining the type and level of criminal penalties for the establishment of such a customary rule of treaty interpretation. None of these acts evidences a *general practice* or *opinio iuris* relating to treaty interpretation.

A. NO CONDITIONALITY OF THE OBLIGATION UNDER ARTICLE 61 TRIPS

3. Article 61 TRIPS explicitly leaves WTO Members flexibility with regard to *certain* obligations. Article 61, 2nd and 3rd sentences TRIPS, for example, enable WTO Members to provide for sufficiently deterrent imprisonment or monetary fines "consistently with the level of penalties applied for crimes of a corresponding gravity" and to provide for certain other remedies "in appropriate cases". Article 61, 1st sentence TRIPS, however, does not contain any such limitation when it comes to the definition of criminal activity. It unequivocally sets out that WTO Members "shall provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale". With regard to Article 1.1, 2nd sentence, TRIPS gives WTO Members flexibility in determining the appropriate *implementation method*, but does not limit the *scope* of TRIPS provisions by subjecting them, as China suggests, to Members' "priorities with respect to public order". The European Communities also fails to see how Article 41.5 TRIPS, which clarifies that Part III does not require dedicated judicial systems for IPR enforcement or any shifts of resource allocation, should subject Article 61 TRIPS to any of the conditions put forward by China. Even if the proper interpretation of Article 61 TRIPS came to the conclusion that the terms "on a commercial scale" required criminalising only a relatively narrow range of activity, nothing would support the conclusion that this obligation is subject to the potentially unlimited and unpredictable conditions proposed by China. The European Communities would like to highlight that all these conditions, i.e. China's commercial context and legal structure, its priorities concerning public order and its resource constraints, relate to factors that are internal to China. Similarly to the well established principle of international treaty law that "[a] party may not invoke the provisions of its internal law as a justification for its failure to perform a treaty" (Article 27 of the *Vienna Convention*), one cannot expect that the treaty obligations themselves are – absent any express provision to the contrary – conditioned upon such internal factors.

B. SUBSEQUENT PRACTICE

4. The draft EC proposal for a directive on criminal measures for IPR enforcement, as it presently stands, does not provide for any definition of what is "on a commercial scale".

III. INTERPRETATION OF ARTICLE 59, 1ST SENTENCE TRIPS IN CONNECTION WITH ARTICLE 46 TRIPS

5. In Article 46 TRIPS, the European Communities identifies the following principles relevant for the destruction or disposal of infringing goods:

- (a) The goal of these remedies is "to create an effective deterrent to infringement".
- (b) There shall not be "compensation of any sort" to the infringer.
- (c) Authorities "shall have the authority" to order two remedies:
 - (i) Disposal "outside the channels of commerce": This must be achieved "in such a manner as to avoid any harm caused to the right holder"; or
 - (ii) Destruction (unless this is excluded by the constitution of the WTO Member).
- (d) When considering whether to order any of these two remedies, authorities shall take into account "the need for proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties".
- (e) When authorities choose not to order either of the two remedies, simply removing the unlawfully affixed trademark from counterfeit trademark goods is not sufficient to permit release of the goods into the channels of commerce, unless there is an exceptional case.

6. The European Communities disagrees with China's position that the fourth sentence of Article 46 is not incorporated into Article 59 and therefore does not apply to customs authorities. First, Article 59, 1st sentence refers to "the principles set out in Article 46" in their entirety, and not only to those contained in the first sentence of Article 46. Secondly, the European Communities is not persuaded by China's argument that Article 59, 2nd sentence constitutes a *lex specialis* for Custom's treatment of counterfeit trademark goods derogating the general provision of Article 46, 4th sentence.

7. The disposal must be "in such a manner as to avoid *any* harm caused to the right holder" (emphasis added). The use of the word "any" clearly suggests that even a slight degree of harm is too much.

IV. DENIAL OF COPYRIGHT PROTECTION

8. China acknowledges that Article 4.1 of its Copyright Law denies copyright protection for works with certain illegal ("unconstitutional or immoral", "reactionary, pornographic, or superstitious") content. The European Communities is not persuaded by China's legal argument that Article 17 of the Berne Convention allows the denial of copyright protection or limiting exclusive rights of copyright holders. Article 17 of the Berne Convention allows governments to control the dissemination of works, but does not exempt works from protection or limits exclusive rights of copyright holders. China's denial of copyright protection pursuant to Article 4.1 of its Copyright Law

is not permitted by Articles 2 and 2bis of the Berne Convention which allow exempting certain categories of works (e.g. official text of a legislative, administrative and legal nature) from protection. There is no provision allowing exempting works of "illegal content" from copyright protection. Nor is it covered by the provisions in the Berne Convention, such as Articles 9(2), 10 or 10bis, that provide for limited exceptions to certain *exclusive rights*, or by Article 13 TRIPS.

V. CONCLUSION

9. This dispute gives the Panel the opportunity to preserve the rights and obligations of the parties under the TRIPS Agreement by clarifying several TRIPS provisions. Part III of the TRIPS Agreement strikes a delicate balance between the need for "effective and appropriate means for the enforcement of trade-related intellectual property rights" and the respect for "differences in national legal systems". Therefore, it is imperative to carefully clarify this balance through a strict application of the customary rules of interpretation of public international law as required by Article 3.2, 2nd sentence DSU, and not through recourse to alleged "powerful default norms" or by subjecting obligations to what WTO Members may find "appropriate" or in line with their "priorities". The European Communities hopes that its comments are of assistance to the Panel in this task.

ANNEX C-9

EXECUTIVE SUMMARY OF THE ORAL STATEMENT BY THE EUROPEAN COMMUNITIES

I. INTERPRETATION OF ARTICLE 61 OF THE TRIPS AGREEMENT

1. The European Communities makes the following observations relating to the definition of trademark counterfeiting or copyright piracy "on a commercial scale".

2. With regard to the *ordinary meaning*, the term "on a commercial scale" has two elements. "Commercial" refers to matters "pertaining to, or bearing on commerce" or "likely to make a profit". "Scale" means a "relative magnitude or extent; degree, proportion". There is no indication that the "magnitude or extent", "degree" or "proportion" to which the term "scale" refers can only be assessed on the basis of "countable" elements, such as the amount of turnover or profit. The "scale" of an activity could also be determined through other elements indicating a certain degree or dimension, such as the circumstances surrounding the activity. Read together, the terms "commercial" and "scale" would therefore denote activities of such a dimension that they pertain to a business or to the generation of profits. The ordinary meaning of "on a commercial scale" does not limit the scope of Article 61 to activities that involve certain quantities – be it in value or numbers – of counterfeit or pirated goods.

3. Concerning the *context*, Article 61, 1st sentence contains, in contrast to the more flexible sentences 2, 3 and 4, the strict obligation – indicated by the use of the terms "shall" and "at least" – to provide for criminal enforcement in case of certain activities. There is no subsequent practice fulfilling the conditions of Article 31(3)(b) of the *Vienna Convention*. There is no EC legislation on criminal IPR enforcement defining "on a commercial scale". Directive 2004/48/EC on civil and administrative IPR enforcement defines "on a commercial scale" through other than quantifiable elements, i.e. as acts "carried out for direct or indirect economic or commercial advantage; this would normally exclude acts carried out by end-consumers acting in good faith".

4. As regards the *object and purpose*, Part III of the TRIPS Agreement aims at the provision of "effective and appropriate means for the enforcement of trade-related intellectual property rights" while respecting "differences in national legal systems". Article 61 reflects this balance. Its sentences 2, 3 and 4 emphasise flexibility, for example with regard to the level of imprisonment or the inclusion of certain other remedies. Article 61, 1st sentence, on the other hand, contains a hard-and-fast rule obliging WTO Members to provide for criminal enforcement against at least two types of IPR infringements. The purpose of Article 61, 1st sentence is to single out these two types of infringements because they have a particular potential of harming right holders. This purpose is reflected in the term "on a commercial scale". It refers to activities that tend to be particularly harmful because they pertain to a business or the generation of profits which means that they typically occur as part of a larger plan, repeatedly, systematically or in larger dimensions. Activities "on a commercial scale" are potentially more harmful than "occasional" infringements by private persons.

5. In the light of this object and purpose, the term "on a commercial scale" must comprise all activities with a particular potential of harm which results from them pertaining to a business or profit generation. Quantitative thresholds, for example based on the numbers or value of infringing goods, may capture "commercial scale" activities in some circumstances. There may be, however, other circumstances in which they do not. Japan gave the good example of a case in which a person sells a relatively small number of low value counterfeit products, but in which the professional organization of the activity, for example systematic cooperation with other persons, indicates a business dimension. In our view, this would be an activity which has a particularly high potential of harming right holders

because it is part of a business and which should therefore be considered "on a commercial scale". In order to capture all infringements "on a commercial scale", WTO Members would need to enable their criminal law enforcement authorities to take into account not only quantitative thresholds but also additional elements indicating the business dimension of the activity.

6. Given the clear interpretation result pursuant to Article 31 of the *Vienna Convention*, there is limited interest in recurring to *supplementary means of interpretation* within the meaning of Article 32 of the *Vienna Convention*. The 1988 WIPO Memorandum confirms the above interpretation since it refers to both quantitative and non-quantitative factors and is clearly not meant to be exhaustive. It may be that some delegations suggested formulations such as "commercial" or "for commercial purposes" during the TRIPS negotiations, but the negotiating record does not tell *why* negotiators finally chose the term "on a commercial scale". The insertion of the term "scale" does not limit the scope of Article 61, 1st sentence to activities to be assessed on purely quantitative factors.

7. In sum, the term "on a commercial scale" denotes activities of such a dimension that they pertain to a business or to the generation of profits. Activities can have this business dimension even if they do not meet quantitative thresholds based on numbers or values of infringing goods. Additional factors can be indications of business organization or profit orientation.

II. INTERPRETATION OF ARTICLES 59 AND 46 OF THE TRIPS AGREEMENT

8. A core interpretation question raised by the second US claim is whether or to what extent the obligation in Article 59 permits WTO Members to subject the "authority to order the destruction or disposal of infringing goods" to conditions.

9. The *ordinary meaning* of the terms "shall have the authority to order" in Articles 59 and 46 is that customs authorities must have the power to avail themselves of these remedies. It does not clarify in which circumstances they must be able to do so.

10. From a *contextual* point of view, the language used in Article 44 ("judicial authorities shall have the authority to order ..." – "Members are not obliged to accord such authority in respect of ...") could indicate that WTO Members knew how to expressly qualify the obligation to provide a certain authority if they wanted to. Another example is the clause in Article 46 exempting WTO Members from the obligations to grant destruction authority if this is "contrary to existing constitutional requirements". One could argue that in the absence of such express qualifications, WTO Members should fully and unconditionally accord the authorities in question.

11. With regard to the *object and purpose*, Article 46 sets out that the goal of providing destruction and disposal authorities is "to create an effective deterrent to infringement". In the view of the European Communities, this purpose could be undermined if these remedies only existed in theory and customs authorities were effectively unable to order them. This could be the case if they were available only under overly restrictive conditions. In the end, this will be largely a question of degree involving factual assessments, such as the scope of discretion of customs authorities.

III. DENIAL OF COPYRIGHT PROTECTION

12. China's denial of copyright protection for works of "unconstitutional" content is inconsistent with Article 9.1 of the TRIPS Agreement in connection with Article 5(1) of the Berne Convention (1971) since it denies authors of the relevant works the exclusive rights granted by the TRIPS Agreement and the Berne Convention (1971).

13. Article 4.1 of China's Copyright Law could also be inconsistent with Article 9.1 of the TRIPS Agreement in connection with Article 5(2) of the Berne Convention (1971). This would be the case if

the enjoyment and exercise of copyright were contingent upon the dissemination approval by Chinese censorship authorities, i.e. a "formality".

14. The United States claims that such a nexus exists under Chinese law referring to the wording of both the Copyright Law and the censorship laws. China denies any link between the operation of Article 4.1 of the Copyright Law and the content review process and refers to instances in which copyright was allegedly enforced while content review was still pending. Without commenting upon these factual questions, the European Communities would be reticent to give such instances too much weight in the assessment of an "as such" claim that appears to be based on the plain wording of the Chinese *law*. If the copyright enforcement *practice* played a role in the assessment of the US claim, one would need to explore more systematically how decisions of the Chinese censorship administration affect Chinese copyright enforcement authorities.

ANNEX C-10

EXECUTIVE SUMMARY OF THE THIRD PARTY SUBMISSION BY JAPAN

I. THE MEANING OF "ON A COMMERCIAL SCALE" IN ARTICLE 61 TRIPS¹

A. THE ORDINARY MEANING OF "COMMERCIAL SCALE" SUGGESTS AN ASSESSMENT OF A VARIETY OF QUANTITATIVE AND QUALITATIVE ELEMENTS

1. The starting point of an analysis under Article 31 of the Vienna Convention on the Law of Treaties ("VCLT") is still the *ordinary of the meaning* of the text.

1. Syntax and dictionary definitions

2. The term "commercial scale" consists of two parts: a *noun* ("scale"), and an *adjective* ("commercial"). The adjective "commercial" modifies the noun "scale".

3. The interpretation of the noun "*scale*" is relatively straightforward. By its dictionary meaning, the term "scale" denotes a certain relative magnitude, an indicator of graduated size or proportion.

4. The question then is when that "scale" becomes "**commercial**". The Shorter Oxford English Dictionary (Fifth edition, 2002, p. 459) defines the English word "commercial" as "Engaged in commerce; of, pertaining to, or bearing on commerce . . . Interested in financial return rather than artistry; likely to make a profit; regarded as a mere matter of business". The OED further defines "commerce" as: "**1. a.** Exchange between men of the products of nature or art; buying and selling together; trading; exchange of merchandise".

5. The French versions of the TRIPS Agreement shed further light on the meaning of "commercial". The French version of Article 61 TRIPS refers to "une échelle commerciale". The French word "commercial" is defined by the Petit Robert, Dictionnaire de la Langue Française (ed. 2004), as "1. Qui a rapport au commerce", and "commerce" is: "1. Opération, activité d'achat et de revente (en l'état ou après transformation) d'un produit, d'une valeur ... commercialisation, distribution; achat, circulation, échange, négoce, vente." "Commerce" in French also has an "organisational" meaning and indicates the shop or sales point of a company: "3.Un commerce: point de vente tenu par un commerçant, fonds de commerce. => boutique ..."²

¹ Article 61 TRIPS provides for a minimum obligation ("at least") for WTO Members to provide for criminal procedures and penalties for trademark counterfeiting and copyright piracy, whenever such counterfeiting or piracy reaches "a commercial scale". In this regard, Japan notes that China argues that the United States bears a "significantly higher burden" in advancing its Article 61 claim since it requires a Member to enact a criminal law that meets with specific international standards (China's first written submission, para.49). Japan does not agree with this statement of China. Japan believes that the United States bears a conventional burden to establish a *prima facie* case as it does in advancing other claims, for a WTO Member is required to comply with any obligation enshrined in the WTO Agreements as it is agreed in the text, regardless of whether the obligation relates to the Member's criminal law or not. In examining the TRIPS Article 61 claim advanced by the United States in this dispute, the Panel should discharge its task first by clarifying the meaning of the provision, including the meaning of the term "on a commercial scale", and thus by clarifying the specific obligation on which the WTO Members have agreed under the provision, and then by concluding whether China complies with the obligation or not.

² The Spanish definition of "comercial" resembles that of "commercial" in French.

6. In sum, the word "commercial" indicates certain qualitative elements. The term "scale" denotes a certain relative magnitude, an indicator of graduated size or proportion. The combined term "commercial scale" denotes that there must be a buying and selling of products, or some sort of market-based action (denoted by "commercial") and that these actions must be of certain level in some relative way (be of some "scale"). In addition, certain definitions of the word "commercial", particularly in French, suggest that some sort of organizational or representational element may be relevant as well. In other words, the combination of "commercial" (i.e., a transaction defined by buying and selling) and "scale" (i.e., the relative scale of a transaction) suggests that the numbers of infringing goods involved, the overall value of an offer or a transaction, or organizational elements, and thus the repetition of the action (repeated sales, repeated infringements), can each play a role in a finding that a certain infringement achieves "commercial scale".

2. Examples of "commercial" and "commercial scale" sales transactions

7. First, if trademark counterfeit goods are sold in a store, even in relatively small quantities at a time, this would logically constitute "commercial" activity. This is of course clear when that store is a grocery store that sells hundreds of tubes of toothpaste, dozens of bottles of beer and other similar goods. But consider also a small store with a beautiful showroom in which two counterfeit high-end luxury cars are offered for sale. Nobody would seriously dispute that the store is operating on a commercial scale. Indeed, the value of the goods (infringing or infringed) may be one reason to arrive at the presumption that this offer represents counterfeiting on a "commercial scale". Other factors, such as the professional organization needed to set up such a storefront and the operation of producing and selling these high-end luxury cars, render this presumption irrebuttable. Expressed differently, "scale" denotes a relative size or quantity, the assessment of which is further informed by the term "commercial", which covers additional, more qualitative elements. In these examples factors such as the organizational structure and the simple optics of the transaction (selling it in a store) all demonstrate the "commercial" nature of the scale.

8. Now consider a person on the street in Geneva who is found with five packets of counterfeit cigarettes that he is offering for sale to tourists passing by for, say, CHF 1,- per packet. Despite the relatively small number of products and the low value of the counterfeit items we can not immediately conclude that this person is not operating on a "commercial scale". Other questions need to be asked: did he happen to have found some cigarettes on the street and is trying to sell them? Do the cigarettes look as if they have been professionally counterfeited? Does he have a friend around the corner with dozens or hundreds more cigarette packs (*i.e.*, the organizational element)? What if the same person pulls open his coat and also has five counterfeit luxurious watches for sale, and offers a list of other products that one can custom-order from him?

9. If one encounters offers or transactions involving significant quantities of counterfeit goods, even of modest value, the likely conclusion is that this represents counterfeiting on a "commercial scale". Similarly, offers or transactions representing substantial value, even if covering only a few counterfeit items, will also amount to counterfeiting on a "commercial scale". However, as the above examples illustrate, these two instances do not exhaust the possibilities of commercial scale counterfeiting. Even much smaller quantities of goods, and smaller values involved can still represent "commercial scale" infringements because of additional circumstances (such as indications of a professional organization, or of easy repetition). Accordingly, while quantitative thresholds may identify many instances of "commercial scale" counterfeiting, mere quantification of "commercial scale" does not capture all instances of commercial scale counterfeiting, and when smaller quantities are at stake further – qualitative – elements may need to be considered.

3. Conclusion

10. It is clear that a mere quantitative standard cannot capture all counterfeit operations taking place on a "commercial scale". While "commercial scale" can justifiably be assumed in the case of high quantities, small quantities do not necessarily signify that an operation is not "commercial". We showed examples above of situations where despite small quantities, certain infringements can be considered as being on a "commercial scale". Thus, "commercial scale" suggests a test that, while accepting that higher quantities (volume, value) suggest "commercial scale", will also require to take into account the specific circumstances of each individual infringement, such as the organizational characteristics of the infringer, and so forth in order to establish whether such "commercial scale" is reached.

11. The examples above further indicate that a single quantitative standard generally applicable to any kind of infringing goods may not capture certain infringements "on a commercial scale" in light of the fact that the prices and the numbers of commercially-distributed goods are various in actual markets. For example, a quantitative standard that is low enough to effectively work in dealing with trademark counterfeit cars may be too high to be equally effective in dealing with trademark counterfeit toothpaste, whether or not the standard at issue is based on the number of infringing goods or revenue gained through selling goods. The meaning of the term "commercial scale" thus needs to be determined, taking into account relevant facts pertinent to infringing goods at issue.

B. PREPARATORY WORK CONFIRMS THAT VARIOUS QUANTITATIVE AND QUALITATIVE FACTORS CAN BE RELEVANT TO THE DETERMINATION OF "COMMERCIAL SCALE"

12. The term "commercial scale" appears almost immediately in the discussions on counterfeiting of the GATT Negotiating Group on trade-related aspects of intellectual property rights. Participants were reported to have referred to a WIPO document where the same term was used. This appears to have been a reference to a 1988 Memorandum prepared by WIPO's International Bureau, where the requirement of "commercial scale" was formulated both in respect of counterfeiting and of piracy. The Bureau Memorandum stated:

"Commercial scale is a notion which will have to be applied taking into consideration the circumstance accompanying the manufacture. The quantity of the goods manufactured, the way in which they were, are or are intended to be used and the will to make profit are among the factors that the courts will have to take into consideration."

13. This definition confirms the interpretation of "commercial scale" as a notion that can only be determined on an *ad hoc* basis, taking into account a number of factors, such as quantity, organization and profit.

14. Thus, the preparatory work of the TRIPS Agreement offers further, albeit indirect, insight in what the drafters of Article 61 TRIPS might have had in mind. The WIPO International Bureau Memorandum confirms the interpretation derived from the ordinary meaning of the words that "commercial scale" entails an assessment of a variety of quantitative and qualitative elements taking into consideration the particular circumstances of each case and not a single-quantitative-threshold approach.

II. RELATIONSHIP BETWEEN CHINA'S QUANTITATIVE THRESHOLDS AND CERTAIN COMMERCIAL SCALE INFRINGEMENTS

15. China's Criminal Law and relevant judicial interpretations set a series of single, specific and fixed quantitative thresholds that determine whether criminal procedures and penalties are effectively available regardless of case-specific facts pertaining to infringing goods at issue.

16. In view of the above general interpretative observations, it appears that there are two main points to make with regard to China's current thresholds. First, the Panel should examine whether the thresholds established in China's Criminal Law are based on single quantitative thresholds that do not allow prosecutors to take into account all circumstances that may be relevant to a determination of commercial scale. Second, the Panel should examine whether comparison of these single quantitative thresholds to the actual market values of various trademarked goods demonstrates that the quantitative standards in China's Criminal Law are so high as to automatically exclude many instances of "commercial scale" trademark infringement. In light of the various prices and the numbers of goods distributed in a market, it is necessary to examine whether these single quantitative standards provide criminal procedures for infringements on a "commercial scale". Moreover, quantities of thresholds are considered to be substantial amounts, particularly if one takes into consideration that the value of the illegal business volume refers to the value of the counterfeit goods, rather than the retail value of the legitimate goods.

17. However, even if the thresholds were based on the value of the trademarked goods – as opposed to the value of the infringing product – many instances of "commercial scale" infringement could remain excluded. The example of cigarette sales discussed above is a case in point. In the case of a store selling cigarettes, such an assessment would begin with the quantities involved. Someone selling thousands of packets of cigarettes (the numbers needed for cigarettes to reach China's current "commercial scale" thresholds) is clearly operating a commercial scale business. However, even if a store offers substantially smaller quantities of counterfeit cigarettes (say, a few hundred packages of brand X), the organizational element (a store), or the relative frequency (regular supplies) would still point to "commercial scale".

18. In sum, any system based on a single quantitative standard by definition will run the risk of exempting certain "commercial scale" trademark infringements from prosecution and penalties, unless that quantitative threshold becomes so low as to be effectively meaningless. Such a single standard is bound to create a safety area for certain commercial scale infringements as demonstrated by the examples provided above. China's Criminal Law thresholds are problematic for a second reason as well. They do not seem to take into account that prices and value of goods vary widely from very low (*e.g.*, a packet of cigarettes) to very high (*e.g.*, a high-end luxury car). As a result of China's single value- or earnings-based thresholds, and the high level of such thresholds, a number of categories of counterfeit products can be automatically excluded from criminal prosecution and penalties.

ANNEX C-11

EXECUTIVE SUMMARY OF THE ORAL STATEMENT BY JAPAN

I. BURDEN OF PROOF AND SCOPE OF OBLIGATION

1. China has argued that the United States bears a "significantly higher burden" in advancing its Article 61 claim since it requires a Member to enact a criminal law that meets with specific international standards.¹ The burden of proof in WTO dispute settlement has generally been interpreted to require the complaining party to establish a prima facie case of violation. The burden then shifts to the responding party to show that in fact such a violation did not occur. Thus, what the United States would ordinarily have to show is a prima facie case that China's legal system does not "provide for criminal procedures and penalties to be applied at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale" and that the remedies required to be available in the second sentence of Article 61 are not available.

2. Whether Article 61 envisions a particular burden of proof must be determined through an interpretation of Article 61 pursuant to customary rules of treaty interpretation as laid down in the Vienna Convention on the Law of Treaties.

3. In this regard, Japan notes first of all that there is nothing in the ordinary meaning of Article 61 TRIPS, as read in its context and in light of the object and purpose of the agreement, that would suggest any particular burden of proof. Indeed, by its ordinary meaning, Article 61 TRIPS establishes an explicit standard for WTO Members to comply with. It provides that "Members shall provide for criminal procedures and penalties to be applied at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale. Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity" (our emphasis). WTO Members agreed to this standard and, indeed, agreed to make it particularly binding by using the word "shall" for both requirements set forth. Thus, the ordinary meaning of Article 61 in no way suggests any particular burden and, in fact, the language used suggests that the legal standard set forth is a strict one (demonstrated particularly by the words "shall" and "at least").

4. China's principal argument why Article 61 would require an especially "high" burden of proof, is that this provision relates to criminal law. In particular, China points to other international agreements that it argues show certain levels of deference to parties to the agreements in the area of criminal law. Japan fails to see how this would change the burden of proof or the particular obligation provided for under Article 61 TRIPS. Even if China is right that other treaties that set out international agreements concerning issues relating to a country's criminal laws impose only general obligations, affording extensive discretion regarding implementation², that some countries do so with regard to their state-level laws, and that international courts have been exceedingly reluctant to impose specific criminal standards on sovereign states³, this only means that the parties to those treaties agreed so and does not in any way affect the expressly agreed obligation provided for in Article 61 TRIPS. Indeed, the customary rules of treaty interpretation as laid down in the Vienna Convention on the Law of Treaties nowhere provide that the approach to a certain issue in a particular treaty would in any way have bearing on the interpretation of a provision in another, entirely unrelated, treaty.

¹ China's first written submission, para. 49.

² China's first written submission, para 55.

³ China's first written submission, para. 58.

II. DEFINITION OF "COMMERCIAL SCALE" IN ARTICLE 61 OF TRIPS

A. THE ORDINARY MEANING OF "COMMERCIAL SCALE" AND ACTUAL EXAMPLES OF "COMMERCIAL SCALE" INFRINGEMENTS

5. China has suggested that the interpretation of the term "commercial scale" presented by the United States does not give sufficient weight to the term "scale". Its own definition, however, appears to replace the word "commercial" by "significant".⁴ Japan agrees that it is important that sufficient weight is given to both words in the expression "commercial scale". As we have set out in our written submission, we believe that an interpretation of Article 61 TRIPS demonstrates that a variety of factors may have to be taken into account in order to determine whether an infringement achieves "commercial scale". As the interpretation laid out in Japan's written submission shows, Japan would certainly agree that when the "scale" of infringements is significant or large such infringements would usually be commercial. However, the examples of "commercial" activity that Japan presented in its written submission also show that "commercial scale" does not necessarily mean that quantities (values or volumes) have to be of any particular size and, indeed, that such quantities can be relatively small. Thus, Japan believes that the precise "quantitative level" that will constitute "commercial scale" can only be established taking into account a number of quantitative and qualitative factors.

6. Indeed, Japan has already noted that the word "scale" denotes a certain relative magnitude, an indicator of graduated size or proportion.⁵ It does not simply equal "large" or "a lot". It is also important to note that the word "commercial" does not necessarily signify "significant" or "a significant magnitude of activity", as China suggests.⁶ Instead, Article 61 TRIPS specifically uses the word "commercial", not "significant", or "substantial" or "large". The precise scale required is thus only defined by the word "commercial".

7. In this context, Japan would like to re-emphasize the ordinary meaning of the word "commercial". A review of the dictionary meaning of this word in English, French and Spanish shows that "commercial" denotes that there must be a buying and selling of products, or some sort of market-based action (denoted by "commercial"). Definitions of the word "commercial", particularly in French and Spanish, also suggest that some sort of organizational or representational element may be relevant. This confirms that it is not a particular value or a particular volume as such that makes something "commercial", but that a number of qualitative and quantitative factors together determine when the "scale" is such as to reach the level of "commercial".

8. In our written submission, we have shown that an examination of facts in light of the ordinary meaning of "commercial scale" shows that in circumstances where the quantities (volumes or values) involved are relatively high, "commercial scale" will usually be present. For example, someone offering for sale 500 bottles of laundry detergent is clearly operating on a commercial scale. Thus, certain minimum thresholds are an appropriate way to capture at least such presumed situations of commercial scale.

9. On the other hand, Japan has also explained that much smaller quantities (volumes or values) can still constitute "commercial scale" depending on the circumstances of the case. Thus, for example, when counterfeit goods are sold in a store, even relatively small quantities would likely constitute "commercial" scale.⁷ Similarly, a street vendor, who is caught with just a few designer handbags that he is offering to passers-by, may also be considered to operate on a "commercial scale". Similarly, even when a shop offers for sale only one or a few of such bags, "commercial scale" can

⁴ China's first written submission, para. 72.

⁵ Japan's third party submission, para. 8.

⁶ China's first written submission, para. 72.

⁷ Japan's third party submission, para. 13.

nevertheless be presumed, based on the professional nature of the operation. Conversely, there are clearly circumstances where the number (volume) of goods alone, or the value of such goods, may not of themselves be sufficient to demonstrate the "commercial" nature of the "scale". However, in such cases, a more complete assessment of the circumstances could still lead to the conclusion that "commercial scale" is achieved.

B. THE NEGOTIATING HISTORY CONFIRMS THIS READING OF ARTICLE 61 TRIPS

10. In our written submission, we pointed to the discussion of the term "commercial scale" in the GATT Negotiating Group on trade-related aspects of intellectual property rights where reference was made to a WIPO document where the same term was used.⁸

11. Japan is glad to note that China appears to argue that this document confirms the need for an ad hoc, case-by-case assessment of whether "commercial scale" has been achieved.⁹ However, even if one follows this line of interpretation, Japan would note that this does not mean that Members are provided full discretion as to whether they comply with the standard set out in Article 61. There is nothing that suggests that this standard is such that a WTO panel could not review whether a Member's decisions on when "commercial scale" is reached, or how to formulate its laws in a way that would cover situations where such "commercial scale" is reached, are consistent with the express requirement laid down in Article 61 TRIPS.

12. Japan also refers to China's position that the reference to the WIPO document, as well as use of the term in certain other context, would in some way suggest that "commercial scale" would be "akin to ongoing, industrial production".¹⁰ Most importantly, the ordinary meaning of the word "commercial" confirms that Members did not agree to a standard of "industrial scale". If they would have, they would not have used the word "commercial" which, as we discussed above, is a broader term that refers to actions of buying and selling, organizational elements and the like. If Members had agreed upon a narrower standard, the text would have referred to "industrial scale" or "ongoing operations". The ordinary meaning of "commercial" is broader than that.

13. Japan also does not see how the use of the word "manufacturing" in the WIPO document would change this interpretation. The TRIPS Agreement deals with the use and sale of counterfeit products. When the WIPO committee discussed "commercial scale" in the particular context of "manufacturing", it in no way suggested that the counterfeit activity would have to take place on a scale "akin to ongoing, industrial production".¹¹ Instead, it merely happened to be discussing the concept of "commercial scale" in relation to manufacturing activity.

14. Indeed, elsewhere in the same document, the WIPO Committee takes a broader approach and refers to the concept of "commercial scale" as relevant in determining whether certain acts in the form of packaging, exportation and importation, the offering for sale, rental, lending or other distribution and other forms of transaction constitutes a form of counterfeiting under the WIPO Model Provisions.¹² Thus, other than China seems to suggest, there is no necessary link between "manufacturing" and "commercial scale".

⁸ Japan's third party submission, para. 22; MTN.GNG/NG11/7, at para. 35 (21 June 1988).

⁹ China's first written submission, para. 74.

¹⁰ China's first written submission, para. 76.

¹¹ China's first written submission, para. 76.

¹² WIPO Committee of Experts on Measures Against Counterfeiting and Piracy, Model Provisions for National Laws, C&P/CE/2, circulated on 18-19 February 1998, para. 34.

III. RELEVANCE OF OTHER PRINCIPLES IN THE TRIPS AGREEMENT

15. Japan notes first of all that in the case of Article 61 TRIPS, Members have agreed on a specific standard that all WTO Members have to comply with. Indeed, Article 61 contains an explicit obligation ("shall") for Members to provide for criminal procedures and penalties "at least" when infringements reach a "commercial scale". Japan does not believe that the provisions referred to by China as context are such as to change the meaning of that expressly agreed provision or standard. Japan also notes that, based on the principle of effective treaty interpretation, such provisions in any event could not be read in a way that effectively reads out of the agreement the standard expressly agreed to by Members in Article 61.

A. ARTICLE 1.1 TRIPS

16. Japan begins by noting that almost the entire discussion of Article 1.1 TRIPS in China's first written submission (paragraphs 93 through 97) actually relates to the general negotiating history of the TRIPS Agreement – not to the specific interpretation of Article 1.1 TRIPS. Japan notes that it does not see how general statements made by certain Members with regard to the TRIPS Agreement as a whole would change the legal meaning of particular provisions of the TRIPS Agreement agreed to by all Members that provide expressly for certain obligations for WTO Members. In Japan's view, it is not appropriate to attribute this kind of broad relevance to general statements by certain Members in the negotiating history of an agreement in the interpretation of individual, express provisions of the agreement. It would not be right to change the meaning of language explicitly agreed to by all Members based on the general negotiating statements of some.

17. Japan also notes that a review of the full text of Article 1.1 TRIPS shows that, as a whole, it should be read to require Members to "give effect" to the express obligations elsewhere in the Agreement – *i.e.*, to implement the agreement into domestic law. Thus, Article 1.1 TRIPS reads, in full:

"Members shall give effect to the provisions of this Agreement. Members may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement. Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice." (our emphasis)

18. In other words, Article 1.1 deals principally with the obligation for Members to put into effect – *i.e.*, implement in domestic law – the provisions of the TRIPS Agreement ("shall give effect to the provisions of this Agreement"). The first sentence of the provision provides the general obligation for Members to do so. The second sentence provides that Members may, but do not have to, go further in the protection they accord, as long as such additional protection is not required under the provisions of the Agreement. The third sentence – which China refers to – provides that "Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice". As the Appellate Body has explained, "Members, therefore, are free to determine how best to meet their obligations under the *TRIPS Agreement* within the context of their own legal system."¹³ Yet this provision cannot be read in any way to imply that Members are free to modify their TRIPS obligations when they implement these obligations in their domestic legal systems.

¹³ WTO Appellate Body, *India — Patents (US)*, at para. 59 (WT/DS50/AB/R, 16 January 1998).

19. Moreover, a different interpretation of Article 1.1 TRIPS – that is, one that would allow Members not to impose criminal procedures and penalties in certain cases of "commercial scale" counterfeiting – would run counter to the principle of effective treaty interpretation. If the last sentence in Article 1.1 TRIPS were read so as to change the explicit requirement in Article 61 TRIPS – to provide for criminal procedures and penalties – to a discretionary ability for Members to provide for other kinds of procedures and penalties (or indeed, for none at all), this would effectively read the express obligation contained in Article 61 TRIPS out of the Agreement.

B. ARTICLE 41.5 TRIPS

20. According to its terms, Article 41.5 is not concerned with the question of criminalization as such that concerns us here, i.e., with the question whether a WTO Member has properly established criminal procedures and penalties for commercial scale counterfeiting and piracy as envisaged by Article 61.¹⁴ If anything, the principles of Article 41.5 TRIPS tell us something about the amount of resources a WTO Member has to devote to the enforcement of such criminal procedures and penalties for commercial scale counterfeiting, as opposed to the law in general. However, whatever its general principles mean, Article 41.5 cannot be read to contradict the specific requirement of Article 61 that certain infringements must be criminalized. Of course, whenever a particular behavior is criminalized, this means extra work for public prosecutors or criminal courts. The WTO Members who drafted Article 61 TRIPS were certainly aware of this, yet agreed nonetheless to criminalize certain forms of counterfeiting and piracy according to a common standard ("commercial scale").

21. China appears to suggest that in deciding when to criminalize willful trademark counterfeiting or copyright piracy) a WTO Member, ultimately, is free to assess whether such infringements pose a threat to its public order,¹⁵ or how their criminalization would fit in with its treatment of other commercial offenses.¹⁶ This approach ignores the explicit wording and obligation of Article 61, pursuant to which the critical question in deciding when to criminalize willful trademark counterfeiting (or copyright piracy) is whether such infringements have reached "commercial scale". This commonly defined minimum requirement is to be interpreted according to the principles of the Vienna Convention, not according to a WTO Member's unilateral appreciation of its public order requirements or of the relationship with other commercial behaviour which it has decided to criminalize (without their being any requirement in WTO law to do so).

IV. CONCLUSION

22. For the reasons set out above and in our written submission, Japan believes that the term "commercial scale" in Article 61 should be interpreted as imposing an obligation on Members to provide for criminal procedures and penalties not only in cases involving relatively large numbers of counterfeited goods or where such goods represent substantial value, but also in situations that, while involving smaller numbers of goods or lower value, still amount to counterfeiting on a commercial scale because of particular qualitative circumstances (e.g., organizational elements, frequency).

¹⁴ The issue presented in the present dispute is not whether China must put in place a judicial system for the enforcement of intellectual property rights which is distinct from that for the enforcement of law in general.

¹⁵ *e.g.*, China's first written submission, para. 40, and para. 137.

¹⁶ *e.g.*, China's first written submission, para. 62, or para. 117 and following.

ANNEX C-12

EXECUTIVE SUMMARY OF THE THIRD PARTY SUBMISSION BY KOREA

I. INTRODUCTION

1. This third party submission is presented by the Government of the Republic of Korea ("Korea") with respect to certain aspects of the first written submissions by the United States dated 30 January 2008 and by the People's Republic of China ("China") dated 12 March 2008, respectively, in *China – Measures Affecting the Protection and Enforcement of Intellectual Property Rights* (DS362).

2. Korea has systemic interests in the interpretation and application of various provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPs"). Therefore, Korea reserved its third party rights pursuant to Article 10.2 of the Understanding on Rules and Procedures Governing the Settlement of Dispute ("DSU"). Korea appreciates this opportunity to present its view to the Panel.

II. LEGAL ARGUMENT

A. IN ORDER TO MAKE A PRIMA FACIE CASE, A MEMBER CLAIMING A VIOLATION MUST PRESENT FACTUAL EVIDENCE AND LEGAL ARGUMENTS SUFFICIENT TO DEMONSTRATE THE INCONSISTENCY OF THE CHALLENGED ACTION BY ANOTHER MEMBER WITH A RELEVANT WTO AGREEMENT

3. In Korea's view, satisfying prima facie standard is to present factual evidence and legal arguments "sufficient to demonstrate" the inconsistency of the challenged action with the defending Member's obligation. As a basic rule, a Member claiming a violation of a provision of WTO Agreements by another Member must "assert and prove its claim" by putting forward "evidence and legal argument sufficient to demonstrate" the inconsistency of the challenged action with the defending Member's obligations under the WTO Agreements.

4. Korea believes that the *prima facie* standard is particularly meaningful in this dispute as one of the main issues in this dispute is directed at the criminal enforcement mechanism and related activities of a Member state. As China stresses, an inquiry into and evaluation of the domestic criminal enforcement mechanism of a Member should be conducted in a careful manner, so as not to infringe upon national sovereignty of the Member.

5. In order to guarantee that the panel's review only proceeds with sufficient evidence and persuasive legal arguments and to avoid unnecessary controversies stemming from the examination of the criminal enforcement system of a Member, it is necessary for the Panel to strictly apply the *prima facie* threshold.

B. THE CRIMINAL PUNISHMENT THRESHOLD OF CHINA IS ARBITRARY AND THUS CHINA HAS FAILED TO IMPOSE EFFECTIVE CRIMINAL SANCTIONS ON WILLFUL TRADEMARK COUNTERFEITING AND COPYRIGHT PIRACY ON A "COMMERCIAL SCALE"

6. As China also acknowledges, in China criminal punishment is applied to counterfeiting and piracy when those acts are undertaken on a sufficient scale to exceed the minimum thresholds for criminal enforcement.¹ According to China, the purpose of having such a threshold in the criminal

¹ China's first written submission, para. 17.

system is "to express the point at which – in the considered judgment of China – proscribed activity threatens the public order and warrants the relatively costly and cumbersome intervention of the criminal system with its attendant implications for the rights of persons."² As such, the minimum thresholds for various IPR violation crimes vary, ranging from 30,000 RMB to 50,000 RMB measured in total volumes of sales. Any violation which comes below the applicable threshold, therefore, gets exempted from the criminal punishment.

7. Although China offers lengthy explanations on its criminal law system and threshold mechanism in its first written submission, it is not entirely clear why the Chinese government has come up with the particular amount of money as the minimum threshold for criminal enforcement. Korea believes that China has failed to show any compelling reason and rationale in introducing the minimum threshold system and adopting particular thresholds.

8. What is clear, on the other hand, is that a certain category of IPR violations, which could be potentially significant according to the US claims, simply go unpunished, at least criminally. All in all, the criminal threshold of China simply arbitrarily carves out some of the IPR crimes from the possibility of criminal sanction, which is not consistent with the TRIPs. Nowhere in the text of Article 61 can one find a legal basis that a Member can categorically exclude a certain group of violations based on its own judgment and evaluation.

9. Also, regarding the term of "commercial scale," Korea does not agree with the general proposition of China that a Member has full discretion in interpreting and applying the term "commercial scale". The term should be interpreted based on the principles of the 1969 Vienna Convention on the Law of Treaties and in Korea's opinion the interpretation offered by the United States seems to be more appropriate in this regard.

10. In Korea's view, the term simply appears to require a certain level of magnitude, and the level does not necessarily have to be "significant". Practically speaking, Korea believes, "a certain level of magnitude" in this context should mean operating or maintaining a business activity, large or small, for the purpose of gaining financial returns through IPR infringement in somewhat systematic fashion. In other words, as long as a person or an entity engages in a business activity by infringing IPR of another person or entity and realizes a financial return, he or it should be regarded as violating IPR in a "commercial scale," regardless of the alleged amount at issue.

11. Korea also notes that sanction from an administrative procedure is usually different, both in degree and quality, from sanction from the criminal procedure. Most of the time, criminal sanction carries more deterrence effect than an administrative procedure. So, the argument offered by China does not seem persuasive in this respect.

C. THE COMPLAINANT DOES NOT BEAR AN ESPECIALLY HIGH BURDEN OF PROOF IN ADVANCING THE CLAIM UNDER ARTICLE 61 OF TRIPs

12. It may well be true that a state party to a treaty has discretion in carrying out domestically an obligation under the treaty relating to criminal enforcement.³ But the situation would be completely different if a certain category of crimes simply go unpunished, even if the relevant provision of the treaty explicitly requires the punishment. In this case, it is not about discretion any more, but about deviation from a treaty obligation.

13. In addition, under the current WTO dispute settlement regime, one could not argue that a complainant would have a higher burden of proof than in other cases, simply because the complainant

² China's first written submission, para. 19.

³ China's first written submission, paras. 52-57.

raises an issue about criminal enforcement. As far as Korea is aware, the TRIPs and the DSU do not differentiate a standard of burden of proof depending on the nature of claims.

14. Furthermore, in addressing this issue, the rationale or explanation offered by China with respect to the enactment of the legislation and regulation at issue should not be controlling. For instance, China cannot attempt to justify its alleged violation, if there is any, based on such an argument as "Chinese criminal law typically employs threshold system"⁴ or "it is necessary to adopt a threshold system in China."⁵

15. Instead, what should be determinative in this inquiry is whether the challenged Chinese legislation and regulation indeed constitute good faith implementation of Article 61 of the TRIPs and whether that legislation and regulation fully carry out the obligation under the provision.

III. CONCLUSION

16. Korea appreciates the opportunity to participate in these proceedings, and to present its views to the Panel.

⁴ China's first written submission, para. 19.

⁵ China's first written submission, para. 19.

ANNEX C-13

ORAL STATEMENT BY KOREA

1. The Republic of Korea ("Korea") appreciates this opportunity to present its views to the Panel as a third party in this important dispute. Through this statement, Korea provides an overview of the key issues included in Korea's third party submission dated March 26, 2008.

I. IN ORDER TO MAKE A PRIMA FACIE CASE, A MEMBER CLAIMING A VIOLATION MUST PRESENT FACTUAL EVIDENCE AND LEGAL ARGUMENTS SUFFICIENT TO DEMONSTRATE THE INCONSISTENCY OF THE CHALLENGED ACTION BY ANOTHER MEMBER WITH A RELEVANT WTO AGREEMENT

2. In Korea's view, satisfying prima facie standard is to present factual evidence and legal arguments "sufficient to demonstrate" the inconsistency of the challenged action with the defending Member's obligation. Korea believes that the prima facie standard is particularly meaningful in this dispute as one of the main issues in this dispute is directed at the criminal enforcement mechanism and related activities of a Member state. As China stresses, an inquiry into and evaluation of the domestic criminal enforcement mechanism of a Member should be conducted in a careful manner, so as not to infringe upon national sovereignty of the Member.

3. In order to guarantee that the panel's review only proceeds with sufficient evidence and persuasive legal arguments and to avoid unnecessary controversies stemming from the examination of the criminal enforcement system of a Member, it is necessary for the Panel to strictly apply the *prima facie* threshold.

II. THE CRIMINAL PUNISHMENT THRESHOLD OF CHINA IS ARBITRARY AND THUS CHINA HAS FAILED TO IMPOSE EFFECTIVE CRIMINAL SANCTIONS ON WILLFUL TRADEMARK COUNTERFEITING AND COPYRIGHT PIRACY ON A "COMMERCIAL SCALE"

4. As China also acknowledges, in China criminal punishment is applied to counterfeiting and piracy when those acts are undertaken on a sufficient scale to exceed the minimum thresholds for criminal enforcement. Although China offers lengthy explanations on its criminal law system and threshold mechanism in its First Written Submission, it is not entirely clear why the Chinese government has come up with the particular amount of money as the minimum threshold for criminal enforcement.

5. What is clear, on the other hand, is that a certain category of IPR violations, which could be potentially significant according to the U.S. claims, simply go unpunished, at least criminally. All in all, the criminal threshold of China simply arbitrarily carves out some of the IPR crimes from the possibility of criminal sanction, which is not consistent with the Article 61 of the TRIPs.

6. Also, regarding the term of "commercial scale," in Korea's view the term simply appears to require a certain level of magnitude, and the level does not necessarily have to be "significant." Practically speaking, Korea believes, "a certain level of magnitude" in this context should mean operating or maintaining a business activity, large or small, for the purpose of gaining financial returns through IPR infringement in somewhat systematic fashion. In other words, as long as a person or entity engages in a business activity by infringing IPR of another person or entity and realizes a financial return, he or it should be regarded as violating IPR in a "commercial scale," regardless of the alleged amount at issue.

7. Korea also notes that sanction from an administrative procedure is usually different, both in degree and quality, from sanction from the criminal procedure. Most of the time, criminal sanction carries more deterrence effect than an administrative procedure. So, the argument offered by China does not seem persuasive in this respect.

III. THE COMPLAINANT DOES NOT BEAR AN ESPECIALLY HIGH BURDEN OF PROOF IN ADVANCING THE CLAIM UNDER ARTICLE 61 OF TRIPS

8. Under the current WTO dispute settlement regime, one could not argue that a complainant would have a higher burden of proof than in other cases, simply because the complainant raises an issue about criminal enforcement. As far as Korea is aware, the TRIPs and the DSU do not differentiate a standard of burden of proof depending on the nature of claims.

9. Furthermore, in addressing this issue, the rationale or explanation offered by China with respect to the enactment of the legislation and regulation at issue should not be controlling. For instance, China cannot attempt to justify its alleged violation, if there is any, by resorting to such an argument as "Chinese criminal law typically employs threshold system" or "it is necessary to adopt a threshold system in China."

10. Instead, what should be determinative in this inquiry is whether the challenged Chinese legislation and regulation indeed constitute good faith implementation of Article 61 of the TRIPs and whether that legislation and regulation fully carry out the obligation under the provision.

11. Korea appreciates the opportunity to participate in these proceedings, and to present its views to the Panel.

ANNEX C-14

THIRD PARTY SUBMISSION BY MEXICO

I. INTRODUCTION

1. The Government of Mexico appreciates this opportunity to present its views in this proceeding. Mexico is participating in this dispute as a third party because Mexican companies have been harmed by China's failure to properly implement its obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement").

2. Mexico notes that there are disagreements between the United States of America ("United States") and China regarding the precise content of the pertinent Chinese laws and policies at issue. Mindful of these disagreements, Mexico will focus its comments on the United States' claim under Article 61 of the TRIPS Agreement concerning the thresholds for criminal penalties and procedures. However, Mexico reserves its right to comment on the other claims of the United States in this dispute.

II. BURDEN OF PROOF

3. At paragraphs 49-59 of its first written submission, China argues that the United States bears "an especially high burden of proof in advancing the claim that China fails to meet its Article 61 obligation". Mexico disagrees. In this case, the normal burden of proof, whereby the complainant must present a prima facie case with respect to each of its claims, applies.

4. The points raised by China regarding the character of measures governed by Article 61 may be helpful in understanding the context of that provision within the TRIPS Agreement and, therefore, in interpreting its meaning. However, they do not, as argued by China, justify a "significantly higher burden than [the United States, as the complainant] would normally encounter".

III. THRESHOLDS FOR CRIMINAL PENALTIES AND PROCEDURES

5. As part of its defence to the United States' claim under Article 61 of the TRIPS Agreement, China has discussed, among other subjects, the need for the exercise of prosecutorial discretion and the associated issue of the allocation of finite government resources to criminal enforcement. Because the United States' challenge under Article 61 is limited to the Chinese laws pertaining to criminal penalties and procedures, Mexico will restrict its comments to this issue. The prosecutorial discretion and the allocation of resources with respect to the actual application of these laws and regulations are not issues before this Panel.

6. The United States claims that China's criminal laws maintain "safe harbors" that allow commercial-scale counterfeiting and piracy without the possibility of criminal prosecution or conviction for those acts. The laws establish safe harbors by prohibiting criminal prosecution or penalties for piracy and counterfeiting unless a case meets specific quantitative or value thresholds set out in China's laws. According to the United States, these thresholds provide counterfeiters or pirates with a clear roadmap for operating without fear of criminal sanctions for commercial-scale IPR infringement.¹

7. China counters that the United States misunderstands the applicable laws and that China has fully provided for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale.

¹ United States' first written submission, paragraphs 4-5.

8. The central issue raised in this claim is the meaning of the term "commercial scale". The United States bases its claim on the following interpretation:

"the concept of 'commercial scale' extends... to those who engage in commercial activities in order to make a 'financial return' in the marketplace, and who are, by definition, therefore operating on a commercial scale".²

9. China disagrees with this interpretation, arguing *inter alia* that:

"the United States asserts that if transactions are undertaken for a commercial purpose, they are necessarily of 'commercial scale.' This reads the concept of 'scale' completely out of the definition. In effect, the United States has suggested that the Panel read 'commercial scale' to mean 'commercial purpose'."³

China argues that "commercial scale" refers to a "significant magnitude of activity"⁴ and "sustainable commercial enterprise".⁵

10. Mexico agrees with the United States that the concept of "commercial scale" extends to those who engage in commercial activities in order to make a "financial return" in the marketplace, and who are, by definition, therefore operating on a commercial scale. In other words, Mexico understands the term "commercial scale" to be intended to encompass activities that go beyond casual or occasional infringements that are not made for the purpose of generating revenue. Nonetheless, in Mexico's view, even under China's interpretation of "commercial scale", Chinese law does not comply with Article 61 of the TRIPS Agreement. By virtue of the "safe harbors" described by the United States, Chinese law does not "provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy" even for instances that constitute a "significant magnitude of activity" or a "sustainable commercial enterprise".

11. China summarizes the thresholds for its criminal procedures as follows:

"In summary, under Chinese law, the affixation of a counterfeited registered trademark is a crime if the volume of illegal business is at least RMB50,000 (about \$6,925) or if the illegal gains (profits) are at least RMB30,000 (about \$4,155) (Art. 213); the sale of goods bearing such a trademark is a crime if the volume of sales is at least RMB50,000 (Art. 214); and the production or sale of such trademarks is a crime if the illegal business volume is at least RMB50,000, if the illegal gains are at least RMB30,000, or if there are at least 20,000 infringing pieces of trademark items (Art. 215).

The unlicensed reproduction and/or distribution of various works is a crime if any of the following thresholds are met: the illegal gains are at least RMB30,000, the illegal business volume is at least RMB50,000, or there are at least 500 infringing copies (Art. 217); and the sale of pirated copies is a crime if the illegal gains are at least RMB100,000 (about \$13,850) (Art. 218)."⁶

² United States' first written submission, paragraph 110. The United States presents two activities that fall within the meaning of "commercial scale" but clarifies that "it is the former activity that forms the focus of this submission".

³ China's first written submission, paragraph 67.

⁴ China's first written submission, paragraphs 4, 61-62, 64, 72 and 117.

⁵ China's first written submission, paragraph 133.

⁶ China's first written submission, paragraphs 20-21.

12. The United States has demonstrated in its first submission and in its supporting exhibits that a considerable number of operations exist in China that are under these thresholds. This is prima facie evidence that such operations are commercially sustainable. Moreover, although they are small, they are clearly "significant".

13. Mexico agrees with China that national governments should have broad discretion in establishing and applying their respective criminal procedures, and that the TRIPS Agreement does not require a uniform approach to such matters. Nonetheless, the United States has presented evidence that, by virtue of a combination of factors – the levels at which the thresholds for prosecution are set, the manner in which the values are calculated, and the complete exception ("safe harbor") for persons operating under the thresholds – Chinese legislation seems to have the effect of encouraging, rather than discouraging, counterfeiting of trademarks and piracy of copyrights.

14. This situation is possible because persons are permitted to engage in trademark counterfeiting and copyright piracy on a continuing basis, secure in the knowledge that they can avoid prosecution simply by limiting their commercial activities to certain levels. Especially in the context of how copyright piracy is carried out in China – with large quantities of infringing articles distributed through many small establishments – Chinese law does not appear to provide for criminal penalties to be applied in cases of copyright piracy on a commercial scale within the meaning of the first sentence of Article 61.

IV. CONCLUSION

15. The Government of Mexico appreciates the opportunity to participate in this proceeding as a third party and to submit its views on these important legal issues relating to China's compliance with Article 61 of the TRIPS Agreement. Mexico will closely follow developments in this matter and stands ready to answer any questions that the Panel may have.

ANNEX C-15

ORAL STATEMENT BY MEXICO

I. INTRODUCTION

1. Mr Chairman and members of the Panel, Mexico will address issues that are before this Panel relating to the interpretation of Article 61 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement). Specifically, Mexico will address the appropriate interpretation of the term "commercial scale" and why the thresholds for criminal procedures and penalties under Chinese law are inconsistent with China's obligations under Article 61.

II. INTERPRETATION OF "COMMERCIAL SCALE"

2. The first sentence of Article 61 of the TRIPS Agreement provides that "Members shall provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale." By virtue of this provision, Members are required to have in place criminal procedures and penalties that *as a minimum* must apply to the *wilful* trademark counterfeiting or copyright piracy that take place on a *commercial scale*. In short, Article 61 requires members to criminalize targeted activities that take place on a commercial scale.

3. At issue in this dispute is whether, through the setting of its quantitative thresholds for criminal procedures and penalties, China has stopped criminalizing the activities targeted under Article 61. As China summarizes in paragraph 60 of its first written submission, "[t]he core of the dispute between the United States and China is the meaning and scope of 'commercial scale'". However, what China attempts to do in its first written submission is to provide an interpretation of "commercial scale" that *per se* excludes certain commercially-oriented activities and wilful trademark counterfeiting and copyright piracy from criminal procedures and penalties.

4. China argues that "commercial scale" refers to a "significant magnitude of activity"¹ and "sustainable commercial enterprise".² The United States, on the contrary, argues that:

"the concept of 'commercial scale' extends ... to those who engage in commercial activities in order to make a 'financial return' in the marketplace, and who are, by definition, therefore operating on a commercial scale"³

5. These diverging interpretations lead to very different implications. China takes a narrow approach to the interpretation of "commercial scale", while the United States takes a broader approach. Mexico also acknowledges the interpretations of Canada⁴, Korea⁵ and Brazil⁶ that the term "commercial scale" invokes the notion of the magnitude of profitability sought. In other words, it applies to activities that are meaningful and done in pursuit of financial gain. However, as Korea points out, it is unclear why the scope of the term should be narrowed, as China argues, to a "significant magnitude of activity".⁷

¹ China's first written submission, paragraphs 4, 61-62, 64, 72 and 117.

² China's first written submission, paragraph 133.

³ United States' first written submission, paragraph 110.

⁴ Canada's third party submission, paragraph 5.

⁵ Korea's third party submission, paragraph 26.

⁶ Brazil's third party submission, paragraph 36.

⁷ Korea's third party submission, paragraphs 26 and 30.

6. Requiring that activities be meaningful and, at the same time, done in pursuit of financial gain would not capture casual and individual instances of trademark counterfeiting or copyright piracy. In paragraph 15 of its written submission, Japan provides a useful example of a street vendor selling purses in Geneva who contributes to the chain of trademark infringement even though he or she is operating on a small scale. Such activity is clearly meaningful in the sense that it contributes to the chain of infringement. As the purpose of Article 61 is to deter wilful trademark counterfeiting or copyright piracy through the use of criminal procedures and penalties, it would make little sense to require Members to restrict only activities of a "significant magnitude".

7. The example above helps to better understand what could be an alternative, not to mention a better or correct interpretation of the concept "commercial scale". Likewise, "[i]n accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose", as the Vienna Convention on the Law of Treaties requires, it should be noted that the word "scale" is not necessarily subject to conditions of magnitude, but rather, to "quality" (same quality).⁸ In this regard no obligation is imposed on Members with respect to wilful counterfeiting of trademarks or piracy of copyrights – at least not under Article 61 of the TRIPS Agreement – unless such acts are done commercially (i.e. on a commercial scale).

8. China also argues that it is permissible to interpret the term "commercial scale" to be limited to the activities of manufacturing or industrial production, and not retail sales.⁹ Here once again, China is attempting to narrow the scope of the term "commercial scale".

9. Mexico agrees that the main characteristic of "commercial scale" is the financial gain or profit, regardless of the role of the infringer in the distribution of the illicit products. In paragraph 5 of its written submission, Canada clearly sets out why China's interpretation is problematic:

"Indeed, for the commercial infringer, as for any other person carrying out a business, profitability can be achieved by reproducing or selling large quantities, or by reproducing or distributing small quantities with high margins. Professional infringers can accomplish low-overhead and high-margin mass-production and distribution from their homes using their laptop computers; factory assembly-lines are not needed. By associating the term "commercial scale" with industrial-scale production, China overlooks these economic realities."

10. Mexico agrees with Canada's arguments regarding Members' discretion to prosecute trivial cases.¹⁰ As long as Members have in place the necessary criminal procedures and penalties to provide the required deterrent effect they maintain the ability to exercise prosecutorial discretion when the case so merits. But China has taken an alternative approach by establishing the threshold for wilful trademark counterfeiting and copyright piracy so as to outright exclude certain commercially-oriented activities from sanctions and thereby prevent Chinese officials from exercising any discretion.

III. THE DETERRENT EFFECT OF THE CRIMINAL PROCEDURES AND PENALTIES

11. The obligation in the first sentence of Article 61 must be interpreted in the light of its context, which includes the second sentence of that Article. The second sentence reads in part "[r]emedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent ...".

⁸ See: Diccionario de la Lengua Española. Real Academia Española: 2. f. Sucesión ordenada de valores distintos de una misma cualidad [Ordered succession of different values of one and the same quality]. *Escala de colores, de dureza.*

⁹ China's first written submission, paragraphs 73-78 and 133.

¹⁰ Canada's third party submission, paragraph 11.

Thus, deterrence of wilful trademark counterfeiting or copyright piracy on a commercial scale is an important purpose of Article 61 and of the TRIPS Agreement as a whole.

12. In Mexico's view, China's interpretation of the term "commercial scale" inherently prevents its criminal procedures and penalties from having as an object the effective deterrence of wilful trademark counterfeiting and copyright piracy because the thresholds exclude a significant amount of such activity. As such, the interpretation is inconsistent with a proper interpretation of the term "commercial scale" in its context and in the light of the object and purpose of the TRIPS Agreement as required under Article 31 of the Vienna Convention.

13. Mexico agrees with the United States¹¹, Korea¹² and Canada¹³ that China's Criminal Law establishes thresholds that are arbitrary. China's criminal laws and procedures do not effectively deter wilful trademark counterfeiting or copyright piracy because such activities take place on a level that is well below what China considers to be "commercial scale". It is not simply a matter of China failing to prosecute trivial cases of wilful trademark counterfeiting or copyright piracy. Rather, China has arbitrarily set thresholds that do not even permit the initiation of prosecutions against such activities.

14. Canada highlights how arbitrary and ineffective these thresholds are by linking them to the annual Gross Domestic Product (GDP) per capita. For example, Article 213 of the *Criminal Law of the People's Republic of China* establishes as the threshold for the crime of counterfeiting registered trademarks a volume of illegal business of at least RMB50,000 (approximately US\$6,925) or illegal gains of at least RMB30,000 (approximately US\$4,155); and yet, as Canada points out, China's GDP per capita is only the equivalent of US\$2,500 and 57 million people earn less than US\$125 per year. In short, when a purveyor of goods with counterfeited registered trademarks has access to labour forces whose income can be as low as US\$125 a year, then that purveyor could mount a substantial counterfeiting operation that would not meet the US\$6,935 threshold for illegal business activity. It also means that in a region where the average income may only be US\$2,500, people have an incentive to participate in the counterfeit goods industry as they only need to make less than US\$4,155 a year to fly under the radar of the Chinese administration. In short, people could make a full-time living off counterfeit goods without earning enough to allow the Chinese authorities to initiate prosecutions. As stated by Mexico in its third party submission, the Chinese law seems to have the effect of encouraging, rather than discouraging, counterfeiting of trademarks and copyright piracy.

IV. CONCLUSION

15. Mr Chairman and members of the Panel, the Government of Mexico appreciates the opportunity to participate in this proceeding as a third party and to submit its views on these important legal issues relating to China's compliance with Article 61 of the TRIPS Agreement.

16. Mexico looks forward to closely monitoring future developments in this dispute and would be pleased to answer any questions that the Panel may have.

¹¹ United States' first written submission, paragraph 151.

¹² Korea's third party submission, paragraphs 19-20.

¹³ Canada's third party submission, paragraphs 3-4.

ANNEX C-16

EXECUTIVE SUMMARY OF THE THIRD PARTY SUBMISSION BY CHINESE TAIPEI

1. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (hereinafter referred to as "TPKM"), as a third party in this proceeding, makes this submission because it has a systemic interest in the correct interpretation of the TRIPS Agreement.

2. The submission can be divided into two parts. In the first, we address some general principles that the panel should observe while making an objective assessment of the dispute. In particular, we provide the panel with references to prior WTO jurisprudence. Then, we submit our views on specific, relevant provisions and measures at issue.

I. THE TRIPS AGREEMENT IS A MINIMUM STANDARDS AGREEMENT

3. Article 1.1 of the TRIPS Agreement prescribes the minimum required of Members by the TRIPS Agreement to protect intellectual property rights, allowing them to go beyond this minimum in pursuit of more stringent standards of protection if they so wish. Members must take the necessary legal and administrative action to ensure the rights and obligations contained in the Agreement are put into effect, but they are free to determine for themselves how best to implement their obligations under the Agreement within the context of their own legal systems. Members are not to enact measures of protection, however, that would negate such rights and obligations.

II. THE PANEL'S FUNCTION AND REVIEW OF MEMBERS' DOMESTIC LEGISLATION

4. In accordance with Article 11 of the DSU, a panel should make an objective assessment of the matter before it, including an objective assessment of the facts of the case and of the applicability of and conformity with the relevant covered Agreements. It should also make such other findings as will assist the DSB in making the recommendations or in giving the rulings provided for in the covered Agreements.

5. As noted by the Appellate Body in *India – Patent (US)* and by the panel in *US – Section 301 Trade Act*, the panel's task is essentially to examine the domestic legislation at dispute solely for the purpose of determining whether the party to the dispute meets its WTO obligations. In doing so, the panel does not set out to interpret the domestic law "as such", but to establish the meaning of that domestic law in terms of factual elements, and to check whether these factual elements constitute conduct by the party that may be contrary to its WTO obligations. A panel is not bound to accept the interpretation presented by the party in dispute in making factual findings concerning the meaning of the domestic law.

III. INTERPRETATION OF THE TRIPS AGREEMENT

6. Article 3.2 of the DSU directs the DSB to clarify provisions of WTO Agreements in accordance with the customary rules of interpretation of public international law. As noted by a number of panel and Appellate Body reports, customary rules of interpretation of public international law are embodied in the text of the 1969 Vienna Convention on the Law of Treaties. The principles codified in Articles 31 and 32 of the Vienna Convention have attained the status of customary rules.

7. Accordingly, the TRIPS Agreement must be interpreted in good faith based on the wording, the context, and the overall object and purpose of the Agreement. In addition, the work done in the preparation of the treaty and the circumstances of its conclusion may also be taken into consideration.

IV. BURDEN OF PROOF

8. The Appellate Body and panel reports have accepted and consistently applied the general rules that, (1) the party that asserts a fact, whether claimant or respondent, is responsible for providing proof thereof, and (2) the burden of proof lies with the party, whether complainant or defendant, that asserts the affirmative of a particular claim or defence.

9. The initial burden of proof lies with the complaining party, which must establish a prima facie case of inconsistency with a particular provision. A prima facie case must be based on "evidence and legal argument" put forward by the complaining party in relation to each of the elements of the claim. In the case of uncertainty, i.e. where all the evidence and arguments remain in equipoise, the benefit of the doubt is given to the defending party. Under the usual allocation of the burden of proof, a responding Member's measure will be treated as WTO-consistent, until sufficient evidence is presented to prove otherwise.

V. CHINA'S CRIMINAL THRESHOLDS AND ARTICLE 61 OF THE TRIPS AGREEMENT

10. We agree that police powers and the enforcement of criminal law are the exclusive domain of the sovereign jurisdiction, which shall be highly respected. Nevertheless, it can still be compromised with the consent of the State. By concluding the TRIPS Agreement, or acceding to the WTO Agreement, Members assume an obligation under Article 61 of the TRIPS Agreement to adjust their scope and level of criminal enforcement accordingly. There is an agreed "bottom line", i.e. a general principle that "Members shall provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale." Based on the customary rule of "*pacta sunt servanda*", this is binding upon the Members and must be performed in good faith.

11. The panel in this case is requested to make an objective assessment of whether China's law, by setting specific thresholds, captures all wilful infringement on a commercial scale and meets the minimum standard required by Article 61 of the TRIPS Agreement. The panel should clarify the definition of the term "commercial scale" in the context of Article 61 based on the existing rules of interpretation. We would like to remind the panel of the Appellate Body's statement that, "[t]he purpose of treaty interpretation is to establish the common intention of the parties to the treaty."

12. While interpreting the provision at issue, dictionaries are a useful starting point for the definition of the terms. Nevertheless, as the Appellate Body has noted, "dictionary definitions have their limitations in revealing the ordinary meaning of a term. This is especially true where the meanings of terms used in the different authentic texts of the WTO Agreement are susceptible to differences in scope...". In *US – Gambling* the Appellate Body also pointed out that, "a Panel may start with the dictionary definitions of the terms to be interpreted. But dictionaries, alone, are not necessarily capable of resolving complex questions of interpretation, as they typically aim to catalogue all meanings of words – be those meanings common or rare, universal or specialized." Therefore, "the ordinary meaning of a treaty term must be ascertained according to the particular circumstances of each case. Importantly, the ordinary meaning of a treaty term must be seen in the light of the intention of the parties "as expressed in the words used by them against the light of the surrounding circumstances."

13. We have a particular concern over the "one-size-fits-all" regime of criminal thresholds. That is, whether a specific numerical threshold can capture all commercial-scale infringements that are intended to be covered by Article 61 of the TRIPS Agreement.

14. The term "commercial scale" used in Article 61 of the TRIPS Agreement is an abstract legal concept. Multiple aspects of local circumstances, such as the nature of the infringed rights, values and prices in the market, the motive and purpose of an act, the method and scale of infringement, the damage caused, profit gained, the cultural background, the state of advancement of modern technology and living standards, shall be taken into account in the implementation of Article 61 of the TRIPS Agreement.

VI. AN ANALYSIS OF ARTICLE 46 OF THE TRIPS AGREEMENT

15. According to Article 46 of the TRIPS Agreement, a Member is required to ensure that its judicial authority is provided with the power to order either the disposal or the destruction of the infringing goods. However, the Article does not go on to prescribe either the circumstances under which infringing goods must be destroyed or be disposed of, or any sequence or priority between the two options. A Member should be considered to have met the minimum standard if its judicial authority is provided with such power and authority that includes both disposal and destruction.

16. As to deciding whether to dispose of or destroy infringing goods, according to Article 1.1 of the TRIPS Agreement, a Member is free to determine for itself the most appropriate method of implementing Article 46 within its own legal system and practice. It is beyond the issue of minimum standard for a Member to determine the circumstances under which infringing goods are to be disposed of or destroyed.

17. In addition to the kind of power that a Member should vest in its judicial authority, Article 46 sets forth certain conditions relating to the implementation of the said disposal and destruction. While a Member or its judicial authority may use discretion in its choice of approach to dealing with infringing goods, it shall comply with the conditions attached to either approach, as required by the said Article.

18. The judicial authority must have the power to order either the disposal or destruction of infringing goods, whether at its own discretion or within the guidelines issued by any other authority of the Member. Furthermore, no matter for what reason, when the judicial authority orders the disposal of infringing goods, there shall be no compensation of any sort. Disposal must be made outside the channels of commerce, and any harm to the right holder must be avoided. If a judicial authority orders the destruction of infringing goods, there shall be no compensation of any sort, and the order to destroy shall not be contrary to any existing constitutional requirements.

19. In this dispute, the possibilities open to China's customs for disposing of the infringing goods are: donation to a relevant public welfare organization; sale to the right-holders; or, auction after the infringing features have been removed. The panel should make an objective assessment as to whether the three conditions attached to the disposal authority in Article 46 of the TRIPS Agreement have been observed in implementing the disposal by one of the possible methods.

VII. QUERY CONCERNING ARTICLE 4.1 OF CHINA'S COPYRIGHT LAW

20. TPKM has reached a conclusion similar to that of the United States' analysis on the interpretation of Article 4.1. Firstly, the English translation of Article 4.1 is clear and correct. It delivers the same meaning as the article in Chinese delivers at first sight. Secondly, works such as newspapers, books and movies cannot be distributed before passing a content review according to the relevant regulations. Excepting the version that has passed the content review, works that have not passed and works that fail to pass the content review are prohibited from distribution by law, which means they fall within the scope of Article 4.1's "works the publication or distribution of which is prohibited by law".

21. Clarification is required as to whether, as argued, China protects works that have not been submitted for a content review or that are pending authorization, and whether copyright protection is provided for works that are unconstitutional or immoral.

22. Further questions arise out of China's apparent contradictory arguments. If China limits the scope of Article 4.1 to only works that fail to pass a content review for the reasons that they are unconstitutional or immoral, would it be correct to assume that these unconstitutional and immoral works are not only prohibited from publication and distribution, but also denied the protection of copyrights? What about the protection of these works before they are deemed unconstitutional or immoral? Would protection be withdrawn retrospectively once they are deemed unconstitutional or immoral? The possible implications of these ambiguities are crucial to the examination of conformity with the Agreement.

23. The *raison d'être* for a copyright is to provide effective protection to works against any infringement. It would be futile to claim on the one hand that a copyright exists from the time a work is created, and on the other to deny the protection of such a right. There would appear at first sight to be some contradiction within China's laws and regulations, which leads to suspicion of a certain lack of conformity with the TRIPS Agreement.

24. TPKM shares the view of both parties that China has the right to conduct a content review based on Article 17 of the Berne Convention (1971) and Article 9.1 of the TRIPS Agreement. TPKM is also delighted to learn of China's position on the clear division between content review and copyright protection, and the fact that a copyright exists from the time when a work is created. TPKM is further of the view that a right cannot be independent of effective protection. Under the TRIPS Agreement, a work may be prohibited from publication or distribution, but it shall not be deprived of its copyright protection.

25. TPKM thanks the panel for providing us with the opportunity to contribute to its understanding of the issues at stake. We respectfully request the panel to take into account the above observations and comments in its deliberations, and hope that the panel will find the views helpful.

ANNEX C-17

ORAL STATEMENT BY CHINESE TAIPEI

1. Thank you, Mr. Chairman and distinguished members of the panel.
2. As a third party in this proceeding, we do not support any particular party to the dispute. We make this statement because we have a systemic interest in the correct interpretation of various provisions of the TRIPS Agreement.
3. Our written submission is in two parts. In the first, there are some general principles that we believe the Panel should observe in making an objective assessment of the dispute. In particular, we have provided references to previous WTO jurisprudence. In the second part, we submit our views on the specific, relevant provisions and measures at issue. I am not going to cover all of these in detail here, but I would just like to highlight the principles that we believe to be critical to this case, and the points that concern us most.
4. The first key principle is that the TRIPS Agreement is a minimum standards Agreement. Article 1.1 prescribes the minimum required of Members to protect intellectual property rights. They must take the necessary legal and administrative action to ensure the rights and obligations in the Agreement are put into effect, but they are free to determine for themselves how best to implement these obligations in the context of their own legal systems. Members are not allowed, though, to enact protection measures that would negate such rights and obligations.
5. Furthermore, Article 3.2 of the DSU directs the DSB to clarify provisions of WTO Agreements in accordance with the customary rules of interpretation of public international law. As a number of Panel and Appellate Body reports have noted, these "customary rules of interpretation" are embodied in the text of the 1969 Vienna Convention on the Law of Treaties – Articles 31 and 32 to be precise.
6. The TRIPS Agreement must therefore be interpreted in good faith, based on the wording, context and overall objective and purpose of the Agreement. In addition, the work done in the preparation of the Treaty, and the circumstances of its conclusion, may also be taken into consideration.
7. Now, if I may, Mr. Chairman, I would like to turn to the second part of our submission, which describes our views on the specific, relevant provisions and measures at issue, starting with China's criminal thresholds and Article 61 of the TRIPS Agreement.
8. We agree that police powers and the enforcement of criminal law are the exclusive domain of the sovereign jurisdiction, which shall be highly respected. Nevertheless, it can still be compromised with the consent of the State. By concluding the TRIPS Agreement, or acceding to the WTO Agreement, Members assume an obligation, under Article 61 of the TRIPS Agreement, to adjust their scope and level of criminal enforcement accordingly. There is an agreed "bottom line", i.e. a general principle that "Members shall provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale." Based on the customary rule of "*pacta sunt servanda*", this is binding upon the Members and must be performed in good faith.
9. The Panel in this case is requested to make an objective assessment of whether China's law, by setting specific thresholds, captures all wilful infringement on a commercial scale and meets the minimum standard required by Article 61 of the TRIPS Agreement. We think the Panel should clarify the definition of the term "commercial scale" in the context of Article 61 based on the existing rules of

interpretation. We would like to remind the Panel of the Appellate Body's statement that, "[t]he purpose of treaty interpretation is to establish the *common* intention of the parties to the treaty."

10. Both parties to the dispute have provided dictionary definitions of the words "commercial" and "scale". As the Appellate Body has noted in the past, "dictionary definitions have their limitations in revealing the ordinary meaning of a term". They have also pointed out that "Dictionaries alone are not necessarily capable of resolving complex questions of interpretation, as they typically aim to catalogue all meanings of words – be they common or rare, universal or specialized." Therefore, "the ordinary meaning of a treaty term must be ascertained according to the particular circumstances of each case". Importantly, it must be seen in the light of the intention of the parties, and I quote: "as expressed in the words used by them against the light of the surrounding circumstances."

11. With regard to China's criminal thresholds, we have a particular concern over the "one-size-fits-all" regime. We wonder, whether a specific numerical threshold can capture all commercial-scale infringements that are intended to be covered by Article 61 of the TRIPS Agreement.

12. The term "commercial scale" used in Article 61 of the TRIPS Agreement is an abstract legal concept. In our view, many different aspects of local circumstances, such as: nature of the infringed rights; characteristics of the product; values and prices in the market; motive and purpose of the act; method and scale of the infringement; damage caused; profit gained; the cultural background; the state of advancement of modern technology; and the living standards, have to be considered on a case-by-case basis in the implementation of Article 61 of the TRIPS Agreement.

13. Next, the second issue at dispute, which relates to the interpretation of Article 46 of the TRIPS Agreement. According to that Article, a Member is required to ensure that its judicial authority is provided with the power to order either the disposal or the destruction of the infringing goods. However, the Article does not go on to prescribe either the circumstances under which infringing goods must be destroyed or be disposed of, or any sequence or priority between the two options. A Member should be considered to have met the minimum standard if its judicial authority is provided with the relevant power and authority.

14. According to Article 1.1 of the TRIPS Agreement, a Member is free to determine for itself the most appropriate method of implementing Article 46 within its own legal system and practice. It is beyond the issue of minimum standards for a Member to determine the circumstances under which infringing goods are to be disposed of or destroyed.

15. However, Article 46 does set forth certain conditions relating to the implementation of the said disposal and destruction. While a Member or its judicial authority may exercise discretion in its choice of approach to dealing with infringing goods, it shall comply with the conditions attached to whichever approach it chooses to take.

16. When the judicial authority orders the disposal of infringing goods, there shall be no compensation of any sort. Disposal must be made outside the channels of commerce, and any harm to the right holder must be avoided. If a judicial authority orders the destruction of infringing goods, there shall be no compensation of any sort, and the order to destroy shall not be contrary to any existing constitutional requirements.

17. In this dispute, the possibilities open to China's customs for disposing of the infringing goods are:

- (a) donation to a relevant public welfare organization;

- (b) sale to the right-holders; or,
- (c) auction after the infringing features have been removed.

18. We suggest the Panel makes an objective assessment as to whether the conditions attached to the disposal authority in Article 46 of the TRIPS agreement have been fully observed by China in implementing these possible methods of disposal.

19. Regarding the issue of Article 4.1 of China's Copyright Law, we reached a conclusion similar to that of the United States' analysis on the interpretation of the Article. Firstly, the English translation is clear and correct. On the face of it, the same meaning is delivered in the English version as in the Chinese. Secondly, works such as newspapers, books and movies cannot be distributed before passing a content review according to the relevant regulations. With the exception of the version that has passed the content review, works that have not passed, and works that fail to pass the content review are prohibited from distribution by law, which means they fall within the scope of Article 4.1's "works the publication or distribution of which is prohibited by law".

20. We think that clarification is required as to whether, as argued, China protects works that have not been submitted for a content review or that are pending authorization, and whether copyright protection is provided for works that are unconstitutional or immoral.

21. Further questions arise out of China's apparently contradictory arguments. If China limits the scope of Article 4.1 to only works that fail to pass a content review for the reasons that they are unconstitutional or immoral, would it be correct to assume that these unconstitutional and immoral works are not only prohibited from publication and distribution, but also denied the protection of copyrights? What about the protection of these works before they are deemed unconstitutional or immoral? Would protection be withdrawn retrospectively once they are deemed unconstitutional or immoral? We think the possible implications of these ambiguities are crucial to the examination of conformity with the Agreement.

22. Finally, we think the *raison d'être* for a copyright is to provide effective protection to works against any infringement. It would be futile to claim on the one hand that a copyright exists from the time a work is created, and on the other to deny the protection of such a right. There would appear at first sight to be some contradiction within China's laws and regulations, which leads to the suspicion of a certain lack of conformity with the TRIPS Agreement.

23. We share the view of both parties that China has the right to conduct a content review based on Article 17 of the Berne Convention (1971) and Article 9.1 of the TRIPS Agreement. We are also delighted to learn of China's position on the clear division between content review and copyright protection, and the fact that a copyright exists from the time when a work is created. We are further of the view that a right cannot be independent of effective protection. Under the TRIPS Agreement, a work may be prohibited from publication or distribution, but it shall not be deprived of its copyright protection.

24. In conclusion, we would like to thank the Panel for providing us with the opportunity to contribute to its understanding of the issues at stake. We respectfully request that the Panel take into account these observations and comments in its deliberations, and we hope it will find our views helpful.

25. Thank you very much, Mr. Chairman and distinguished members of the Panel.

ANNEX C-18

ORAL STATEMENT BY THAILAND

I. INTRODUCTION

1. Mr. Chairman, distinguished Members of the Panel, I appreciate this opportunity to present, on behalf of the Royal Thai Government, Thailand's views in this panel proceeding as third party. In this regard, we have the following observations to make.

II. CHINA'S CRIMINAL THRESHOLDS

2. The United States claimed in its submission that China failed to meet its obligation under Article 61 of the TRIPS Agreement which requires Members to provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale.

3. In our view, the TRIPS Agreement requires Members to put in place a criminal procedure for those who intentionally infringe trademark or copyrights on a commercial scale. Nonetheless, the Agreement does not define the meaning of "on a commercial scale". It leaves room for a Member to make the interpretation it deems appropriate. Thailand sees this, like many other provisions in the Agreement, as intended or built-in flexibility, recognizing the different legal systems of Members.

4. Moreover, Article 1.1 of the TRIPS Agreement states that "...Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice."

5. The United States also claimed that China's assessments of the value of pirated goods were based on the value of the pirated goods themselves and not the genuine articles, and due to the fact that the value of pirated goods is normally low, the thresholds for criminal procedures have seldom been met. The TRIPS Agreement has no provision on how Members are to assess the value of the intellectual property right infringing goods. Thailand, therefore, believes this action should be solely based on each Member's applicable internal laws and regulations.

III. CHINESE CUSTOMS AUTHORITY IN DESTROY AND DISPOSE OF IPR INFRINGING GOODS.

6. In its Submission, the United States claimed that Chinese Customs has no authority to order the destruction of the confiscated IPR infringing goods. However, Chinese Customs has to comply with the following steps:

- (a) trying to dispose of the confiscated IPR infringing goods by giving them to social welfare bodies, or letting the right holder buy them back;
- (b) in the case that the goods cannot be used for social welfare purposes, and the right holder is not willing to buy them, having the goods auctioned with the IPR infringing features removed; and
- (c) for the confiscated goods that could not be disposed of by the methods specified in (1) and (2), having them destroyed.

Nonetheless, China's submission argues that the three methods embodied in its Regulations on Customs Protection of Intellectual Property Rights are presented in an absolute hierarchy; China Customs may apply the most appropriate method to dispose of or destroy the IPR infringing goods.

7. Article 59 and 46 of the TRIPS Agreement requires that the competent agencies shall have the authority to order the destruction or disposal of infringing goods without compensation of any sort. As for the disposal of such goods, it shall be disposed of outside the channel of commerce in such a manner as to avoid any harm caused to the right holder, and, in regard to counterfeit trademark goods, the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channel of commerce.

8. It is clear to Thailand that to fulfil the requirement of the TRIPS Agreement in this regard, Members shall authorise its competent agencies to order either the destruction or the disposal of the IPR infringing goods or both. In our view, the TRIPS Agreement accepts that the IPR infringing goods may be treated in such a manner other than their destruction, provided that such a manner is consistent with the principle of the disposal of infringing goods embodied in Article 46.

9. Thailand believes that the TRIPS Agreement does not limit Members' ability to develop measures for the disposal of the infringing goods prior to a destruction order being issued. However, the authority concerned needs to ensure that the infringed goods are disposed of outside of the channels of commerce, in such a manner as to avoid any harm being caused to the right holder and in a manner that creates an effective deterrent to infringement.

IV. CONCLUSION

10. Mr. Chairman, distinguished Members of the Panel, Thailand appreciates the opportunity to present our views in this meeting. Thank you very much for your kind attention.