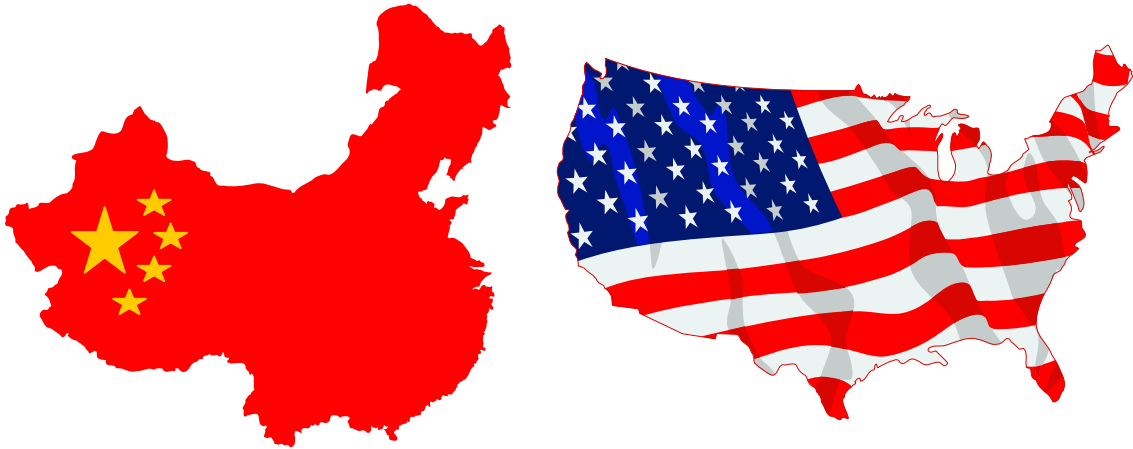


Before the US-China Economic and Security Review  
Commission



Hearing on China's Enforcement of Intellectual Property Rights  
and the dangers of the Movement of Counterfeited and Pirated  
Goods into the United States

Panel IX: IP Law and Bilateral Negotiations  
June 8, 2006

Statement Of  
Terence P. Stewart, Esq.  
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**BEFORE THE  
U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION**

***Hearing on China's Enforcement of Intellectual Property Rights and the Dangers  
of the Movement of Counterfeited and Pirated Goods into the United States***

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**Panel IX: IP Law and Bilateral Negotiations**

**June 8, 2006**

**11:00 am – 12:00 pm**

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**Statement of Terence P. Stewart, Esq.**

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**Introduction**

Members of the Commission, good morning. I appreciate the opportunity to again appear before the Commission as it reviews various aspects of China's efforts both to provide intellectual property rights in compliance with its WTO TRIPS obligations and to enforce those rights to the benefit of the rights holders.

The protection of intellectual property rights (IPR) through adequate laws and enforcement is one of the most serious and persistent bilateral issues facing the US and China. Although it is generally conceded that China has revised its IP laws and improved its IP legislative regime so as to comply with the WTO TRIPS Agreement and other international IPR agreements, it is also generally acknowledged that China's performance in enforcing IP rights has been far short of adequate.

The rate of intellectual property piracy and counterfeiting in China remains extremely high. The problem has been, and continues to be, endemic. "In July 2003, the State Council's Development Research Centre estimated that the market value of counterfeit goods in China was between US\$19 billion and US\$24 billion."<sup>1</sup> The World Customs Organization estimates that global counterfeiting exceeds \$500 billion annually and that most of that originates in China.<sup>2</sup> The financial impact of Chinese IP piracy and counterfeiting on US businesses has been

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<sup>1</sup> Trade Policy Review, Report by the Secretariat, WT/TPR/S/161 (28 February 2006) at para. 303.

<sup>2</sup> See Fakes!, Business Week, February 7, 2005.

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tremendously costly. In its 2004 WTO compliance report, USTR estimated that US businesses lost between \$2.5--\$3.8 billion annually due to piracy of copyrighted materials alone.<sup>3</sup>

**Compliance with Legal Regime Requirements of the WTO TRIPS Agreement**

The general consensus is that China has largely complied with its TRIPS commitments as far as establishing a compliant IPR legal framework. Before WTO accession, China amended, revised, and improved its framework of IPR laws, including copyright, trademark and patent laws, so as to be in compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement).<sup>4</sup> After accession, China agreed that it would adhere to the provisions of the TRIPS Agreement, that is, China agreed to abide by internationally-accepted norms regarding protection and enforcement of the intellectual property rights of foreign companies and individuals (including the US) in China.<sup>5</sup> Among the assumed obligations of the WTO TRIPS Agreement, China agreed to:

- set minimum standards of protection for copyrights and neighboring rights, trademarks, geographical indications, industrial designs, patents, integrated-circuit layout designs and undisclosed information;
- set minimum standards for the enforcement of intellectual property rights in administrative and civil actions;
- set minimum standards, with regard to copyright piracy and trademark counterfeiting, for the enforcement of intellectual property rights in criminal actions and actions at the border; and
- provide other WTO Members national and MFN treatment with respect to protection and enforcement of intellectual property rights.

In general, as noted by the US Trade Representative's Office in its 2005 WTO compliance report, China has largely done a satisfactory job with respect to amending its IPR laws to comply with the TRIPS Agreement and bringing its laws into line with international norms in most key areas although USTR notes that some improvements (e.g., Internet copyright protection) are still needed.<sup>6</sup>

The WTO recently conducted its first Trade Policy Review (TPR) of China. The WTO Secretariat's TPR report provides an objective overview regarding China's IPR regime. The report notes that China made major revisions to its IPR laws in recent years, including the Patent

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<sup>3</sup> It is estimated that global trade in fake goods amounts to between 3% and 9% of total world trade. Studies by the OECD in 1998 and the International Chamber of Commerce in 1997 estimated that counterfeit goods made up 5-7% of world trade. See *Enforcement of Intellectual Property Rights*, Communication from the European Communities, IP/C/W/448 (9 June 2005) at fn. 1.

<sup>4</sup> *Report of the Working Party on the Accession of China*, WT/MIN(01)/3 (10 November 2001) at paras. 251-252.

<sup>5</sup> See generally *Report of the Working Party on the Accession of China*, WT/MIN(01)/3 (10 November 2001) at paras. 251-305 (regarding China's intellectual property rights commitments).

<sup>6</sup> See USTR, 2005 Report to Congress on China's WTO Compliance (December 11, 2005) at 63.

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Law (2000), the Trademark Law (2001), and the Copyright law (2001), and established an “extensive and complex framework” to administer and enforce IPR.<sup>7</sup> The report describes the basic provisions of these and other IPR laws in China, and notes the importance of IPR to China’s own development because “protection of intellectual property rights is essential for ensuring the continued inflow of FDI and the associated transfer of newly developed technologies, as well as fostering the development of new technologies and services in China over the longer term.”<sup>8</sup> Moreover, the report indicates that as China “makes an effort to upgrade obsolete technologies and move production into higher value added sectors, it recognizes that there is a need to improve legislation on intellectual property rights as well as enforcement, in order to attract private sector investment in new and high technologies.”<sup>9</sup>

**WTO Secretariat Report Notes Continuing High Levels of IPR Infringement and Inadequate IPR Enforcement in China**

Notwithstanding China’s efforts to enact IPR laws that comply with its TRIPS obligations, the rate of IPR infringement continues to be high and the level of enforcement of IPR continues to be inadequate. The TRIPS Agreement requires China to implement effective enforcement procedures and to provide civil and criminal remedies that have a deterrent effect.<sup>10</sup> China's efforts in the area of IPR enforcement have fallen short of its commitments. The Secretariat’s TPR report states:

The main problems identified by China's major trading partners include: lack of coordination among the main enforcement agencies; local protectionism and corruption; inadequate deterrence provided by the system of administrative, civil, and criminal penalties; and a lack of sufficient training of personnel.<sup>11</sup>

The Secretariat’s report notes that enforcement of IPR in China is “complex with a large number of responsible authorities.”<sup>12</sup> In China, intellectual property rights may generally be enforced by two means: first, administrative actions which consist of mediation by the

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<sup>7</sup> Trade Policy Review: China, Report by the Secretariat, WT/TPR/S/161 (28 February 2006) at para. 272.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.* at para. 302.

<sup>10</sup> In particular, TRIPS articles 41 (general obligations) and 61 (criminal procedures) mandate effective enforcement of IPR.

<sup>11</sup> *Id.* at para. 303.

<sup>12</sup> *Id.* at para. 304. The “responsible authorities” are: “the SIPO for patents and layout designs of integrated circuits; the SAIC and its Trademark Office for trademarks and, along with the AQSIQ, for geographical indications registration and administration; the National Copyright Administration for copyright; the State Drug Administration for protected medicines; MOFCOM (previously the State Economic and Trade Commission) for administrative protection of agriculture-related chemicals; and the Ministry of Agriculture and the State Forestry Administration for the protection of new plant varieties. Enforcement at the border is carried out by Customs, while the SAIC is in charge of enforcement of laws against unfair competition, including the protection of trade secrets. In addition, other government agencies such as the State Press and Publication Administration and the Ministry of Public Security are also involved in enforcement.” *Id.*

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authorities, and second, judicial measures through the courts, which include civil actions and criminal prosecutions.<sup>13</sup> Under China's criminal law, seven types of IPR infringement are crimes: counterfeiting registered trademarks (Article 213); selling goods bearing counterfeited registered trademarks (Article 214); illegally producing and selling representations of registered trademarks (Article 215); forging another person's patent (Article 216); copyright infringement (Article 217); selling infringing reproductions (Article 218); and infringing commercial secrets (Article 219).<sup>14</sup>

Enforcement of IPR at the border is governed by Customs regulations and administered by China Customs. Different enforcement procedures apply depending on whether the IPR has been filed or recorded at Customs beforehand. If recorded, "Customs can seize the goods at the border and inform the right-holder in writing if it is found that the goods infringe the holder's IPRs."<sup>15</sup> In this case, the "right-holder must provide an application letter requesting that the goods be detained, along with a guarantee, within three days of receipt of the notice from Customs."<sup>16</sup> If the IPR is not recorded, then the right-holder must apply to Customs with specified documentation.<sup>17</sup> The Secretariat's report notes that Customs has been increasingly active in seizures and investigations of infringing goods, the number of investigated cases rising from 330 in 2001 to 569 in 2002, 756 in 2003 and 1,051 in 2004.<sup>18</sup>

Despite China's IPR enforcement efforts, the Secretariat concludes that a high level of IPR infringement continues and IPR enforcement efforts to date have been inadequate.

Despite these efforts, it appears that enforcement remains weak and infringement of intellectual property rights widespread. In addition to inadequate deterrents provided through the prosecution system, it is also claimed that "local protectionism" is a major cause of IPR infringement. Local protectionism may be the result of discretionary actions that give preference to local traders and producers, and of local corruption, which may provide local manufacturers or traders of counterfeit goods advance notice of police raids; there is also concern that regional administrative agencies lack sufficient knowledge and training in IPR enforcement.<sup>19</sup>

**American Businesses in China Continue to Face High Levels of IPR Infringement**

The American Chamber of Commerce in China (AmCham) recently issued its 2006 White Paper in which it, *inter alia*, provides an overview of the IPR experience of American

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<sup>13</sup> *Id.* at para. 305.

<sup>14</sup> *Id.* at para. 308.

<sup>15</sup> *Id.* at para. 310.

<sup>16</sup> *Id.* at para. 310.

<sup>17</sup> *Id.* at para. 311.

<sup>18</sup> *Id.* at para. 311.

<sup>19</sup> *Id.* at para. 313.

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businesses in China. In short, AmCham finds that there has not been any notable improvement in the IPR environment in China.

Five years after China's accession to the WTO, American businesses confronting IPR enforcement issues in China are shifting their focus from the symptomatic to the systematic. Across industries, American companies have concluded that the returns on case-by-case adjudication (whether through administrative, civil or criminal channels) are insufficient to change the overall environment, and confidence in existing IPR enforcement mechanisms remains low: a consensus is emerging that reform is necessary at the most fundamental level.<sup>20</sup>

The White Paper reports that 55 percent of American companies surveyed were "negatively affected by IPR violations" and that 41 percent said that "counterfeits of their products increased."<sup>21</sup> With respect to IPR enforcement, AmCham reports that "generally speaking, administrative enforcement is ineffective."<sup>22</sup> Among AmCham's findings:

- In administrative actions, only 51% of surveyed companies were satisfied with the degree of cooperation from Chinese officials;
- System of transferring administrative cases to criminal courts does not operate smoothly;
- In court actions, less than half of surveyed companies were satisfied with the degree of cooperation from Chinese court officials;
- Despite lowered thresholds for criminal liability, overall criminal prosecution remained low;
- Only 22% of surveyed companies believe the 2004 Judicial Interpretation of Threshold for Criminal Liability will benefit IPR protection either moderately or greatly;
- IPR enforcement in civil courts is hampered because the "gathering evidence is difficult; damages amounts are too low; and judgments are problematic to enforce."<sup>23</sup>

Notwithstanding these less-than-optimistic findings, AmCham reports that "{n}onetheless, American businesses generally agree that awareness of IPR issues has increased in China and that the Chinese government is making efforts in this area such as in the formation of the Leading Group that has been coordinating the Chinese government's IPR campaign."<sup>24</sup>

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<sup>20</sup> AmCham, White Paper 2006: American Business in China (2006) at 34; available at <http://www.amcham-china.org.cn/amcham/show/content.php?Id=1570&menuid=&submid=>.

<sup>21</sup> *Id.*

<sup>22</sup> *Id.* at 36.

<sup>23</sup> *Id.*

<sup>24</sup> *Id.* at 34.

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**USTR's 2006 Special 301 Report**

In April 2006, the US Trade Representative's Office issued its annual "Special 301" report concerning the adequacy and effectiveness of intellectual property rights protection provided US trading partners. The report identifies China as a top IPR enforcement priority.<sup>25</sup> Given its recentness, the Special 301 report highlights the current status of US-China relations concerning IPR problems. The report concretely summarizes the problem:

China does not provide American copyright materials, inventions, brands, and trade secrets the intellectual property protection and enforcement to which they are entitled. China therefore remains a top intellectual property enforcement priority.<sup>26</sup>

USTR suggests that a failure to achieve adequate progress in improving IPR enforcement will lead to a WTO dispute settlement case:

Faced with only limited progress by China in addressing certain deficiencies in IPR protection and enforcement, the United States will step up consideration of its WTO dispute settlement options.<sup>27</sup>

The Special 301 report concludes that despite China's efforts to battle piracy and despite increasing IPR court cases, "overall piracy and counterfeiting levels in China remained unacceptably high in 2005" and affected a wide range of products, brands and technologies.<sup>28</sup> USTR found that:

- estimated levels of piracy "across all lines of copyright business" are 85-93%;
- IPR infringing products from China made up 69% of all imported goods seized by US Customs at the US border in 2005, an increase from 63% in 2004;
- some counterfeit products from China are potential threats to the health and safety of US consumers (e.g., pharmaceuticals, batteries, auto parts, industrial equipment, toys, etc.);
- in addition to consumers and right holders, China itself is directly affected by counterfeiting in lost taxes (e.g., it is estimated that China failed to collect \$3.2-4 billion in 2002 due to counterfeiting).<sup>29</sup>

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<sup>25</sup> See USTR, 2006 Special 301 Report (April 28, 2006).

<sup>26</sup> See USTR, 2006 Special 301 Report (April 28, 2006).

<sup>27</sup> See USTR, 2006 Special 301 Report (April 28, 2006).

<sup>28</sup> See USTR, 2006 Special 301 Report (April 28, 2006). Industries affected by IPR piracy include "films, music and sound recordings, publishing, business and entertainment software, pharmaceuticals, chemicals, information technology, apparel, athletic footwear, textile fabrics and floor coverings, consumer goods, electrical equipment, automotive parts and industrial products, among many others." *Id.*

<sup>29</sup> See USTR, 2006 Special 301 Report (April 28, 2006).



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Inadequate, ineffective IPR enforcement by China continues to be a major failing. In general, USTR pointed out that “enforcement efforts, particularly at the local level, are hampered by poor coordination among Chinese Government ministries and agencies, local protectionism and corruption, high thresholds for initiating investigations and prosecuting criminal cases, lack of training, and inadequate and non-transparent processes.”<sup>30</sup> In particular, USTR noted that “China suffers from chronic over-reliance on toothless administrative enforcement and underutilization of criminal remedies.”<sup>31</sup> As evidence, USTR cited China’s own 2004 data showing that more than 99% of copyright and trademark cases were handled by administrative systems and less than 1% of cases were handled by the police. In effect, because administrative fines are too low to be a deterrent to infringement, potential fines from trademark and copyright piracy in China have become merely costs of doing business. Although China agreed in 2005 to increase the number of criminal IPR actions relative to administrative proceedings, USTR reports no discernible relative increase as of yet.<sup>32</sup>

Among the most egregious continuing problems in IPR enforcement, USTR identifies the following issues:

- Implementation of China’s December 2004 Judicial Interpretation on thresholds for criminal liability. Although this interpretation lowered the thresholds for criminal liability (*i.e.*, minimum values/volumes required to initiate criminal prosecution), they are still too high and, in USTR’s view, “a major reason for the lack of an effective criminal deterrent.”<sup>33</sup>

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<sup>30</sup> See USTR, 2006 Special 301 Report (April 28, 2006).

<sup>31</sup> See USTR, 2006 Special 301 Report (April 28, 2006).

<sup>32</sup> For example, USTR states: “According to Chinese data provided in response to U.S. requests, China initiated no copyright retail cases under Article 218 of its Criminal Law in 2004 and six cases in 2005. Under Article 217 of the same law, covering copyright reproduction and distribution, the number of cases initiated rose from 13 to 28. China’s self-reported numbers of trademark counterfeiting cases initiated also rose from 53 to 98 under Article 215 (sale of counterfeit trademark goods); from 163 to 221 under Article 213 (manufacture of counterfeit trademark goods), and from 100 to 134 under Article 215 (manufacture of counterfeit trademark labels).” *Id.* Moreover, USTR notes that China’s State Administration for Industry and Commerce (SAIC) “recently indicated that the number of trademark cases transferred to the police during 2005 was expected to be less than 0.3% of the total.” *Id.*

Statistics for 2001-2004 regarding the transfer of administrative cases to the courts are reported in the WTO Secretariat’s Trade Policy Review report, WT/TPR/S/161, at 154 (Table III.18).

	2001	2002	2003	2004
<b>Copyright</b>				
Number of disputes	4,420	6,408	23,013	9,691
Number transferred to court	66	136	224	n/a
<b>Trademarks</b>				
Number of disputes	41,163	39,105	37,489	51,851
Number transferred to court	86	59	45	96

<sup>33</sup> See USTR, 2006 Special 301 Report (April 28, 2006).



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- Valuation of infringing products. To determine whether infringing products meet the threshold for criminal liability, China uses the value of the infringing products, rather than the value of the genuine goods. This method highly undervalues the infringing goods and effectively provides a “safe harbor” to infringers.<sup>34</sup>
- Customs enforcement procedures. Certain provisions of China’s customs regulations fail to support border enforcement and, in fact, appear to impose burdens on the IP right holder. These include:
  - the provision allowing right holders only 3 days to apply for seizure of suspected infringing goods held by China customs;<sup>35</sup>
  - the provision regarding disposal of seized goods that appears to require public auction, rather than destruction, of infringing goods that are not purchased by the right holder or used for public welfare.<sup>36</sup>

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<sup>34</sup> See USTR, 2006 Special 301 Report (April 28, 2006).

<sup>35</sup> See USTR, 2006 Special 301 Report (April 28, 2006). Article 16 of China’s Regulations of the People's Republic of China on Customs Protection of Intellectual Property Rights states:

Where discovering any import or export goods suspected of infringing an intellectual property right under Customs recordation, the Customs shall immediately notify the holder of the intellectual property right in writing of such suspected infringement. In case the holder of the intellectual property right presents an application in conformity with the provisions of Article 13 of these Regulations and provide a security in conformity with the provisions of Article 14 of these Regulations within three working days from the date of service of the notification, the Customs shall detain the suspected infringing goods, notify the holder of the intellectual property right in writing of such detention and serve a Customs Detention Receipt on the consignee or consignor. The Customs shall not detain the goods in case the holder of the intellectual property right fails to present an application or to provide a security within the period. (emphasis added)

<sup>36</sup> See USTR, 2006 Special 301 Report (April 28, 2006). Article 27 of China’s Regulations of the People's Republic of China on Customs Protection of Intellectual Property Rights states:

The suspected infringing goods under detention shall be confiscated by the Customs where such goods are considered to have infringed an intellectual property right by the Customs after investigation.

After confiscating the goods infringing an intellectual property right, the Customs shall notify the holder of the intellectual property right in writing of the information related to the goods of infringement.

Where the confiscated goods infringing an intellectual property right can be used for public welfare projects, the Customs shall hand such goods over to the relevant public welfare bodies for use in public welfare projects; where the holder of the intellectual property right intends to purchase the goods, the Customs may have such goods assigned to the holder of the intellectual property right with compensation. Where either the confiscated goods infringing an intellectual property right can not be used for public welfare projects or the holder of the intellectual property right has no intention to purchase the goods, the Customs may have such goods auctioned according to law after removing their infringing features; where the infringing features can not be removed, the Customs shall destroy the goods. (emphasis added)

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- Civil enforcement deficiencies. USTR notes that it “continues to hear complaints of a lack of consistent, uniform and fair enforcement of China’s IPR laws and regulations in the civil courts. Litigants have found that most judges lack necessary technical training, court rules regarding evidence, expert witnesses, and protection of confidential information are vague or ineffective, and the costs of investigation and bringing cases are prohibitively high. In the patent area, where civil enforcement is of particular importance, the process is inefficient and unpredictable. A single case can take four to seven years to complete.”<sup>37</sup>
- Other notable deficiencies in China’s enforcement of IPR identified by USTR include: “profit motive requirement in copyright cases”; “requirement of identical trademarks in counterfeiting cases”; “lack of criminal liability for certain acts of copyright infringement”; and “need to establish minimum, proportional sentences and clear standards for initiation of police investigations in cases where there is a reasonable suspicion of criminal activity.”<sup>38</sup>

**China’s Efforts to Improve its IPR Regime Have Shown Incremental Improvements**

While the problems of high IPR infringement and inadequate IPR enforcement in China are serious and continuing, it must also be acknowledged that China has expended great efforts to address the problems and, although it has not yet achieved an acceptable level of IPR enforcement, it has made some progress toward that goal.

In the WTO’s Trade Policy Review of China, the Chinese Government submitted a report that, *inter alia*, describes the steps it has taken to establish its intellectual property rights regime. China believes that it has worked strenuously to comply with its WTO TRIPS obligations and, despite less-than-perfect results, has worked hard to strengthen and improve enforcement of IPR.<sup>39</sup> In sum, China states:

China has made significant progress in IPR protection particularly in building the IPR-related legal system and raising the consciousness of the general public for IPR protection. However, the Chinese Government is fully aware that like in all other countries the protection of intellectual property rights is constrained by the level of economic development and other conditions in reality. IPR protection in China cannot be perfected overnight. The Chinese Government is determined to continue its persistent and strenuous efforts to achieve that goal.<sup>40</sup>

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<sup>37</sup> See USTR, 2006 Special 301 Report (April 28, 2006).

<sup>38</sup> See USTR, 2006 Special 301 Report (April 28, 2006).

<sup>39</sup> Trade Policy Review: China, Report by the People's Republic of China, WT/TPR/G/161 (17 March 2006) at paras. 56-66.

<sup>40</sup> Trade Policy Review: China, Report by the People's Republic of China, WT/TPR/G/161 (17 March 2006) at para. 66.

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USTR also has noted that there have been some “bright spots in the areas of enforcement.”<sup>41</sup> For example, it finds that China’s “Mountain Eagle” campaign against trademark infringement crimes has actually increased arrests and seizures of infringing goods. In addition, USTR is “encouraged” by (1) China’s recent amendments to rules governing transfer of administrative and customs cases to criminal authorities, (2) the willingness of Chinese authorities on their own to “take *ex officio* enforcement action on behalf of U.S. right holders without the need for a complaint” (e.g., in Shanghai), and (3) by initial enforcement actions against Internet piracy in 2005.<sup>42</sup>

Other notable actions taken by China that are intended to help improve IPR education and enforcement include the following.

China’s 2006 Action Plan on IPR Protection

China has issued a comprehensive and aggressive plan to address the whole range of IPR issues. China summarizes the coverage of the Action Plan as follows:

- “The Action Plan covers 4 major areas: trademark, copyright, patent and import and export, which involve the IPR protection plans and arrangements of 11 departments including the Ministry of Public Security, Ministry of Information Industry, Ministry of Commerce, Ministry of Culture, Customs General Administration, State Administration of Industry and Commerce, Administration of Quality Inspection, Supervision and Quarantine, Copyright Bureau, State Food and Drug Administration, State Intellectual Property Office, and Legislative Affairs Office of the State Council.
- “The Action Plan covers 9 areas: legislation, law enforcement, mechanism building, propaganda, training and education, international communication and cooperation, promoting business self discipline, services to right holders, and subject research.
- “In line with the Action Plan, in 2006 China will draft, formulate and revise 17 laws, regulations, rules and measures relating to trademark, copyright, patent and customs protection, and draft, improve and revise 6 judicial interpretations.
- “The IPR law enforcement efforts will include 7 dedicated campaigns such as the “Mountain Eagle”, “Sunshine” and “Blue Sky”, 8 regular enforcement initiatives and 20 specific measures.
- “The government is going to establish a long standing mechanism constituting 11 parts, including a service center for reporting and complaining IPR violations and publicizing law enforcement statistics, and 18 specific measures. 7 approaches and 39 measures will be adopted to raise the general public’s awareness of IPR protection.

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<sup>41</sup> See USTR, 2006 Special 301 Report (April 28, 2006).

<sup>42</sup> See USTR, 2006 Special 301 Report (April 28, 2006).

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- “21 IPR training programs will be organized under the Project of Training Thousands of IPR Personnel.
- “The focus of IPR related international exchanges and cooperation will be on legislation, trade mark, copyright, patent and customs protection, which will be facilitated through 19 exchange and cooperation activities, out of which 7 will be between China and the US.
- “With a view to improving enterprises’ consciousness and awareness of IPR protection, 3 initiatives will be launched, including the convening of a conference on enterprises’ IPR protection and proprietary innovation.
- “12 specific measures covering 9 areas will be put in place to better serve the right holders. Besides, countermeasure oriented research will be conducted in 5 fields to strengthen IPR protection.”<sup>43</sup>

New China IPR Website

Recently, China’s Ministry of Commerce (MOC) announced the launch of an intellectual property rights protection website -- [www.ipr.gov.cn](http://www.ipr.gov.cn). The MOC described its purpose as to introduce domestic and overseas readers to China's laws, rules, policies and measures concerning IPR protection and to enhance public awareness of IPR.<sup>44</sup> As shown by the home page below, the website provides one-stop access to IPR-related news, policies, documents, laws and regulations, information about IPR legal proceedings, and government ministries involved in IPR administration and enforcement.

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<sup>43</sup> [http://www.ipr.gov.cn/ipr/en/info/Article.jsp?a\\_no=3326&col\\_no=102&dir=200604](http://www.ipr.gov.cn/ipr/en/info/Article.jsp?a_no=3326&col_no=102&dir=200604).

<sup>44</sup> See Xinhua, *China launches IPR protection website*, People’s Daily Online (April 30, 2006); [http://english.people.com.cn/200604/30/eng20060430\\_262285.html](http://english.people.com.cn/200604/30/eng20060430_262285.html)

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The screenshot shows the website for Intellectual Property Protection in China. The header is red with the title 'Intellectual Property Protection in China' and a 'Site map | Chinese Version' link. A navigation menu on the left lists: Home, News, Policy Release, Activities, Guides, Legal Protection, Organizations, Cases, and Laws & Treaties. Below the menu is a search bar and a 'GO' button. The main content area is divided into several sections: 'Headlines' featuring a photo of a press conference and a list of news items including 'APEC: ministers attached great importance to IPR', 'Patent Law Inspection Group ended its inspection in Guangdong', 'Chongqing: noticeable achievements on striking infringing piracy', 'High growth expected in software field', 'Nuke fusion reactor gives a head start', and 'Cheng Siwei: further strengthen IPR protection and better innovation environment'. Below this is a 'Statement of Commitments to "operating legally and honestly, and protecting IPR" was signed in Beijing'. The 'Policy Release' section lists several notices from the State Council and other government bodies. The 'Services' section includes 'National Working Group for IPR Protection' and a list of participating departments like the Propaganda Department of the CPC Central Committee, Ministry of Public Security, Ministry of Justice, Ministry of Information Industry, Ministry of Commerce, Ministry of Culture, and State-owned Assets Supervision and Administration Commission. There are also sections for 'Special Campaigns' and 'Special Reports'.

**Increasing Public Education and Awareness of IPR**

From April 16-23, 2006, an “Achievement Exhibition on China's IPR Protection” was jointly-sponsored by numerous Chinese ministries.<sup>45</sup> In conjunction with the exhibition, China also held a “China High-level Forum on Intellectual Property Rights Protection 2006.”<sup>46</sup> In addition, China’s Ministry of Commerce announced in April 2006 that it intends to set up special

<sup>45</sup> Sponsors of the exhibition included the following: State Council, the National Office of Rectification and Standardization of Market Economic Order, the Propaganda Department of the CPC Central Committee, Ministry of Public Security, Ministry of Commerce, Ministry of Culture, State-owned Assets Supervision and Administration Commission of the State Council, General Administration of Customs, State Administration for Industry and Commerce, National Copyright Administration, State Intellectual Property Office, and Information Office of the State Council.

<sup>46</sup> This exhibition “was the first large-scale exhibition held in China with the content of IPR protection.” Chinese Premier Wen Jiabao said that the exhibition showed the “Chinese government's determination to fight piracy.” The Chinese government described the exhibition as follows:

This exhibition had three areas including Department Area, Local Area, and Enterprise Area. Department Area mainly displayed a general description of IPR, trademark right protection, patent right protection, copyright protection, customs protection of IPR, and judicial protection of IPR in other related fields; Local Area mainly introduced the progress in the Special Campaigns of IPR Protection in 15 key localities and the fruitful results of local enterprises’ independent innovation and fighting for their rights; Enterprise Area focused on the following contents: Chinese enterprises’ enhancement of IPR protection awareness, competition under the IPR system, emphasis on the development and innovation of own intellectual property, creation of independent brands, promotion of the popularity and international competitiveness etc.

See *Achievement Exhibition on China's IPR Protection 2006* (May 8, 2006); available at [http://www.ipr.gov.cn/ipr/en/info/Article.jsp?a\\_no=4077&col\\_no=115&dir=200605](http://www.ipr.gov.cn/ipr/en/info/Article.jsp?a_no=4077&col_no=115&dir=200605).

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service centers in 50 cities to handle domestic complaints regarding IPR infringement and provide IPR-related consulting services in order to raise public awareness of IPR protection.<sup>47</sup>

IPR Ombudsman

The Chinese government appointed, effective January 2006, an Intellectual Property Rights Ombudsman at the Chinese Embassy in Washington, DC. The role of the Ombudsman is to serve as the point of contact for U.S. companies, particularly small- and medium-sized businesses, respecting IPR issues in China.

China's gradual improvement in IPR enforcement is also reflected in the year-to-year increasing number of seizures of IPR infringing goods by China Customs.

China Customs IPR Seizures (2001-2005)

Year	2001	2002	2003	2004	2005
Cases	330	573	756	1,051	1,210

Source: China Customs

In 2005, of the total 1,210 IPR seizures by China Customs, 51 (4.2%) were of imports, and 1,159 (98.4%) were of exports.

Of course, when evaluating China's IPR enforcement performance, one should be mindful of the many practical problems that can impede efficient enforcement. For example, in the case of border IPR enforcement by China Customs, the level of performance will be affected by the number of trained personnel available and assigned to the task of inspection in the same way that the availability (or lack thereof) of US Customs personnel would affect border enforcement in the US. Another consideration is that China Customs can only inspect a limited percentage of containers, and, statistically, China Customs finds containers without IPR problems 3-times more often than it finds problem containers. Given these facts, local Chinese customs officials may be reluctant to delay suspected infringing goods because of the likelihood that the goods will ultimately be found non-infringing and such a delay will affect the market.

In addition to actions by the Chinese government, there have been some noteworthy victories in cases brought by IP right holders. Two recent examples are:

- Ruling against Silk Alley market landlords. Trademark owners of five luxury goods brands (Prada, Chanel, Louis Vuitton, Gucci, and Burberry) filed civil claims in mid-2005 against the landlord, Beijing Xiushui Haosen Clothing Co. Ltd., for allowing merchants to sell knock-offs on its premises. In December 2005, the Beijing No. 2 Intermediate People's Court's found for the trademark holders, and in April 2006, the Beijing High People's Court upheld the previous ruling.<sup>48</sup>

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<sup>47</sup> *IPR infringement complaints to go to special service centers*, China View (April 11, 2006); [http://news.xinhuanet.com/english/2006-04/11/content\\_4411135.htm](http://news.xinhuanet.com/english/2006-04/11/content_4411135.htm).

<sup>48</sup> *See, e.g., Luxury brands win trademark lawsuit*, China Daily (April 19, 2006); [http://www.chinadaily.com.cn/home/2006-04/19/content\\_571000.htm](http://www.chinadaily.com.cn/home/2006-04/19/content_571000.htm).



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- Pfizer's Viagra patent upheld. In 2004, China's patent review board found in favor of Chinese generic drug makers who had challenged Pfizer's patent on sildenafil citrate, the main component of Viagra. In June 2006, the Beijing No. 1 Intermediate Court overturned the patent review board's decision and upheld Pfizer's patent.<sup>49</sup>

Moreover, as Jiang Zhipei, Chief Judge of the Property Rights Tribunal of the Chinese Supreme People's Court, has observed: "Domestic companies are the real impetus for improving IPR."<sup>50</sup> Thus, improvement in the level of IPR protection and enforcement in China is likely to increase to the extent that Chinese companies recognize the importance of and need for effective IPR protection to their own operations, as they increasingly innovate to compete in the market.

Though long and arduous the process might be, China will not make any discount on the principles and goals on its IPR Protection, said Yan Xiaohong, deputy chief of the National Copyright Administration of China at a seminar on encouraging self-innovation and advocating the use of authentic software.

If we do not protect IPR, we could not realize the goal of building an innovation-oriented nation. China will continue to improve legislation and law enforcement in IPR protection to create a sound market environment for enterprises, said Yan.<sup>51</sup>

AmCham agrees that innovation by Chinese companies will be an important driver toward improved IPR protection in the future. AmCham states in its 2006 White Paper: Vigorous IPR enforcement is obviously a baseline condition necessary for innovation to flourish.<sup>52</sup>

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Successful realization of its innovation priorities is the upside inducement for the Chinese to implement the fundamental reforms necessary to guarantee protection of IPR.<sup>53</sup>

In addition, in the future, the activities of industry groups and associations may become an important means to improve IPR enforcement in China. For example, it is my understanding that the China Trademark Association (CTA) ([www.cta.org.cn](http://www.cta.org.cn)), a group composed of

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<sup>49</sup> See, e.g., *China court upholds Pfizer's Viagra patent*, BusinessWeek Online (June 5, 2006) ([http://www.businessweek.com/ap/financialnews/D8I1TG680.htm?sub=apn\\_home\\_down&chan=db](http://www.businessweek.com/ap/financialnews/D8I1TG680.htm?sub=apn_home_down&chan=db)); *Pfizer wins patent protection for Viagra in China*, China Daily (June 4, 2006) ([http://www.chinadaily.net/china/2006-06/04/content\\_607962.htm](http://www.chinadaily.net/china/2006-06/04/content_607962.htm)).

<sup>50</sup> Chris Buckley, *On piracy, an advocate for China's progress*, International Herald Tribune (May 1, 2006); <http://www.iht.com/articles/2005/10/04/business/IPRjudge.php>.

<sup>51</sup> *No discount in IPR protection, copyright watchdog*, People's Daily Online (May 12, 2006) (emphasis added); [http://english.people.com.cn/200605/12/eng20060512\\_265097.html](http://english.people.com.cn/200605/12/eng20060512_265097.html).

<sup>52</sup> AmCham, White Paper 2006: American Business in China (2006) at 34.

<sup>53</sup> AmCham, White Paper 2006: American Business in China (2006) at 42.



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enterprises, trademark agencies and trademark experts, provides its members various services such as consulting, research, seminars and training, trademark monitoring, and serving as a communications link between its members and government agencies. To the extent that US companies operating in China become members of CTA and other similar groups, it is likely to enhance the development and improvement of the IPR protection system in China.

In sum, China is making gradual and incremental progress in developing a more effective IPR protection and enforcement system, but chronic, intractable problems remain. The question is – how fast China can or will be able to move toward a level of IPR protection and enforcement that is acceptable to its trading partners.

**JCCT – The Primary Forum for US-China Bilateral Negotiations on IPR**

Since 1994, the main vehicle for US-China bilateral dialogue regarding IPR issues has been the annual meeting of the Joint Commission on Commerce and Trade (JCCT). At the April 2004 JCCT meeting, the US and China made IPR issues one of their highest trade priorities. At the meetings in 2004, 2005, and 2006, China committed to undertake various actions to reduce IPR infringement and improve IPR enforcement. In some cases, China has fulfilled its commitment and, in some other instances, China is continuing its efforts toward completing the commitment.<sup>54</sup> USTR's Special 301 report cites the following examples of China implementing IPR-related commitments made at the 2004 and 2005 JCCT meetings:

- “At the 2006 JCCT China reaffirmed its commitment, made at previous JCCT meetings, to continue efforts to ensure use of legalized software at all levels of government, and to adopt procedures to ensure that enterprises use legal software, beginning with large enterprises and state-owned enterprises.”
- “China recently fulfilled a 2005 JCCT commitment by adopting amended rules governing the transfer of administrative and customs cases to criminal authorities, and has taken some steps to pursue administrative actions against end-user software piracy.”
- “China recently posted an IPR ombudsman to its Embassy in Washington, who has facilitated contacts between U.S. government officials and their counterparts in Beijing, and been a source of information for U.S. businesses, including small and medium-size companies.”
- “China has also sought to expand enforcement cooperation as agreed at the 2004 and 2005 JCCT meetings.” In particular, China's General Administration of Customs (GAC) and the U.S. Customs and Border Protection (CBP) are developing a plan under which “CBP will cooperate with GAC to affect a four-part customs cooperation program aimed at improving administrative IPR border enforcement in both countries,”

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<sup>54</sup> The US-China Business Council has prepared a useful summary of China's 2004, 2005, and 2006 JCCT commitments, with an indication of their current status. See <http://www.uschina.org/public/documents/2006/05/jcct-commitments.pdf>.

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including such elements as data sharing, exchange of statistical information on IPR border seizures, establishing a contact for matters related to IPR-infringing goods, and technical exchanges (e.g., legislative/regulatory improvements, risk modeling and IPR recordation administration).

- “China is also taking steps to meet its 2005 JCCT commitment to submit a legislative package to the National People’s Congress in June 2006 for China to join the WIPO Internet Treaties.”<sup>55</sup>

The recently completed 2006 JCCT resulted in the following outcomes on requests made by the US aimed toward improving enforcement of intellectual property rights:

In support of its commitment to significantly reduce intellectual property rights (IPR) infringement levels, China agreed to the following specific actions.

- Pirated Optical Disks (ODs). The Chinese government has taken action against 14 factories producing illegal optical disks and has pledged to step up enforcement in this important area to combat copyright piracy of films, music, and software. China and the U.S. will also explore new ways to strengthen cooperation in this area.
- Requirements to Install Legitimate Software. The Chinese government has issued a notice requiring the pre-loading of legal operating system software on all computers produced or imported into China, as well as a notice requiring government agencies to purchase computers with pre-loaded software. In line with these requirements, several Chinese computer manufacturers have recently signed agreements to purchase U.S. operating system software.
- Ensuring Use of Legal Software in Government and Enterprises. In addition to ongoing efforts to ensure use of legalized software at all levels of the government, China has launched efforts to ensure the legalization of software used in Chinese enterprises. In addition, China has agreed to discuss U.S. proposals regarding government and enterprise software asset management in the JCCT IPR Working Group.
- Rid Consumer Markets of Infringing Goods. The Chinese government has agreed to intensify its efforts to ensure that public markets in China are free of infringing products and has announced enforcement actions in several major cities.

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<sup>55</sup> See USTR, 2006 Special 301 Report (April 28, 2006).

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- Individual Cases. The Chinese government agreed to help ensure that individual IPR cases raised by the U.S. government with China will be vigorously pursued.
- Action Plan: China has announced a broad action plan to improve enforcement of IP rights, including steps in the areas of enforcement, legislation and education. Strongly implemented, these steps could lead to significant improvement in the IP situation in China.<sup>56</sup>

**Potential for a WTO Dispute Settlement Case re IPR Enforcement**

In its 2005 report to Congress, the Commission stated that “China’s principal IPR deficiency is effective enforcement of its laws, which is among its WTO commitments.”<sup>57</sup> The Commission further observed that “China’s failure to protect IPR is clearly within the jurisdiction of the WTO, given China’s explicit obligations under the TRIPS agreement,” and then recommended that, “{b}ecause China is not making satisfactory progress in this area, the United States should initiate action through the dispute resolution process at the WTO to address China’s failure to comply with both the criminal penalties and enforcement provisions of TRIPS.”<sup>58</sup>

In its recently-issued Special 301 report, USTR said it was “stepping up consideration” of WTO dispute settlement options against China with regard to IPR issues. In doing so, USTR did not identify the grounds for any potential WTO complaint. However, a recent press report states that USTR is considering a WTO case on the issue of thresholds for IPR criminal liability.

The U.S. Trade Representative’s office last week indicated that it is getting closer to launching a WTO challenge against China’s laws that require certain thresholds to be met before intellectual property rights violators can be hit with criminal penalties. . . .

Informed sources have said since March that USTR is looking at a case that attacks these thresholds, and industry sources this week agreed that the new

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<sup>56</sup> The U.S.-China Joint Commission on Commerce and Trade (JCCT), Outcomes on U.S. Requests (April 11, 2006); [http://www.ita.doc.gov/press/press\\_releases/2006/jcct\\_outcomes\\_041106.pdf](http://www.ita.doc.gov/press/press_releases/2006/jcct_outcomes_041106.pdf).

<sup>57</sup> *2005 Report to Congress of the U.S.-China Economic and Security Review Commission*, 109<sup>th</sup> Cong., 1<sup>st</sup> Sess. (November 2005) at 47 (citing TRIPS article 41.1: “Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.”).

<sup>58</sup> *2005 Report to Congress of the U.S.-China Economic and Security Review Commission*, 109<sup>th</sup> Cong., 1<sup>st</sup> Sess. (November 2005) at 48.

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Special 301 report officially declares that these thresholds are a serious problem.<sup>59</sup>

With respect to the basis for a TRIPS-based complaint, in general, the TRIPS Agreement obligates Members to:

- provide minimum standards of protection for copyrights and neighboring rights, trademarks, geographical indications, industrial designs, patents, integrated-circuit layout designs and undisclosed information;
- establish minimum standards for IPR enforcement in administrative and civil actions and, respecting copyright piracy and trademark counterfeiting, in criminal actions and actions at the border. TRIPS requires that enforcement procedures have a deterrent effect; and
- provide national and MFN treatment with respect to the protection and enforcement of intellectual property rights.

A number of interested party groups, in focusing on China's inadequate IPR enforcement, have recommended bringing a WTO case against China based on alleged violations of TRIPS Article 41 (which sets out the general obligations re enforcement of IPR) and/or Article 61 (dealing with criminal enforcement procedures). The following is a representative sampling of such potential claims.

RIAA (testimony of Jay Berman to House W&M Committee, April 14, 2005):

- ▶ TRIPS Article 41 states that "members shall ensure that enforcement procedures...are available under their law so as to permit effective actions against any infringement...covered by this Agreement, including expeditious remedies...which constitute a deterrent to further infringements." China's excessive reliance upon administrative sanctions in the form of the seizure of infringing product and, if the guilty party doesn't flee, the imposition of small fines, do not deter further infringements.
- ▶ TRIPS Article 61 specifically requires that criminal penalties "be applied in cases of willful trademark counterfeiting or copyright piracy on a commercial scale." China has conducted few prosecutions and made very few convictions for copyright piracy. China has persisted in defining "commercial scale" through the use of complicated numerical thresholds and ambiguous definitions which, despite the new Chinese "judicial interpretation" described below, make it highly unlikely any pirate will face criminal penalties.
- ▶ Moreover, the remedies provided in China's criminal code are only available in those instances where the pirate is making a profit. The profit test is actually more difficult to meet than the commercial scale requirement. A "profit" test violates the TRIPS Agreement.

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<sup>59</sup> *USTR Hints at WTO Case Against China on IPR Criminal Thresholds*, Inside US-China Trade (May 3, 2006).

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NAM (Comments to USTR re Special 301 out-of-cycle review, February 14, 2005):

- ▶ USTR should begin to prepare a WTO case and seek consultations with China as soon as U.S. trade agencies believe they have assembled sufficient information to take this step.
- ▶ Such WTO consultations should present the breadth and depth of China's failure to implement the intellectual property protections as required by the WTO, and should present an assessment of the economic cost to U.S. firms as well as the threat to health and safety posed by tolerating the production and export of counterfeit goods

IIPA (Comments to USTR re Special 301 out-of-cycle review, February 9, 2005):

- ▶ China does not presently meet its WTO/TRIPS commitments on enforcement and particularly Articles 41, 50 and 61 (provide enforcement which "on the ground" deters further infringements, provide effective ex parte civil search orders, and provide specific deterrent criminal penalties).

Intel (Comments to USTR re Special 301 out-of-cycle review, February 14, 2005):

- ▶ Chinese law's reliance on numerical thresholds as basis for prosecutions and convictions will continue to create irrational obstacles to criminal enforcement. China's Criminal Code (especially articles 213-215) appears inconsistent with TRIPS Article 61 which requires access to criminal enforcement in counterfeiting cases on a "commercial scale."

Moreover, USTR's Special 301 out-of-cycle Review conducted in 2005 noted some potential bases of TRIPS violations.<sup>60</sup>

- "Article 63 of the TRIPS Agreement requires laws, regulations and final judicial decisions and administrative rulings of general application pertaining to IPR infringement be made publicly available to rights holders. Despite this requirement, lack of transparent information on IPR infringement levels and enforcement activities in China continues to be an acute problem."
- "Article 61 of the TRIPS Agreement requires a criminal IPR enforcement system with deterrent effect. Presently, however, criminal enforcement in China has not demonstrated any deterrent effect on infringers."
- "Articles 41 and 61 of the TRIPS Agreement require effective and deterrent IPR enforcement. Consensus exists among rights holders, however, that China's current IPR system relies too heavily on enforcement by administrative authorities and is non-deterrent."

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<sup>60</sup> See [http://www.ustr.gov/assets/Document\\_Library/Reports\\_Publications/2005/2005\\_Special\\_301/asset\\_upload\\_file835\\_7647.pdf](http://www.ustr.gov/assets/Document_Library/Reports_Publications/2005/2005_Special_301/asset_upload_file835_7647.pdf).

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- “China has yet to implement any meaningful data protections for pharmaceutical products, as required by Article 39.1 of the TRIPS Agreement.”

In considering how to approach a potential WTO case, it would likely be easier to succeed on specific allegations of TRIPS violations as applied in China, in contrast to alleging generally that China's IPR laws violate TRIPS obligations. A more general approach might, however, if successful, produce a broader effect. Under WTO jurisprudence, it is not uncommon for Members to allege that an underlying law “as such” may violate a WTO legal obligation or otherwise nullify or impair benefits under the covered agreements, independent of any application of that law.

At the WTO, there have been nine TRIPS disputes that have resulted in panel reports. Six disputes have focused on specific aspects of IPR laws and regulations rather than on IPR enforcement *per se*. These cases and the TRIPS articles cited are:

- *India – Patents* (US), WT/DS50 (Articles 27, 63, 70.8 and 70.9)
- *Indonesia – Autos*, WT/DS54 (Articles 3, 20 and 65)
- *India – Patents* (EC), WT/DS79 (Article 70.8(a) and 70.9)
- *Canada – Pharmaceutical Patents*, WT/DS114 (Articles 27, 30, 33 and 70)
- *US – Section 110(5) Copyright Act*, WT/DS160 (Articles 9.1 and 13)
- *Canada- Patent Term*, WT/DS170 (Articles 33, 62.1, 62.4, 65, 70.1 and 70.2)

Article 41 sets out the general obligation that Members ensure that enforcement procedures are available “so as to permit effective action against any act of infringement of intellectual property rights” covered by TRIPS, “including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements.” Article 42 requires Members to provide fair and equitable civil judicial procedures concerning the enforcement of any intellectual property right covered by the TRIPS agreement. While Article 42 is included in Section III of TRIPS (covering enforcement of IPR), it is focused on procedures, not the general obligation of Article 41 to provide effective IPR enforcement.

Three TRIPS disputes that resulted in panel and/or appellate body reports have cited violations of TRIPS enforcement Articles 41 and/or 42, but in none of these cases did the panel or appellate body find a violation. They are:

- *EC – Trademarks and Geographical Indications* (US), WT/DS/174 (Articles 1, 2, 3, 4, 16, 22, 41, 42, and 65)
  - The US claimed that the EC's regulation was inconsistent with Articles 41.1, 41.2, 41.4, 42 and 44.1 of the TRIPS Agreement because it denied the owner of a registered trademark the right provided for in Article 16.1 of the TRIPS Agreement, and because it did not, with respect to a GI, provide the rights provided for in Article 22.2 of the TRIPS Agreement. The US requested a finding that the enforcement obligations of the TRIPS Agreement applied to the EC regulation to the extent that it made unavailable to right holders the requisite



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enforcement procedures and remedies.<sup>61</sup> However, the Panel exercised “judicial economy” with respect to these claims and did not address them.<sup>62</sup>

- *EC – Trademarks and Geographical Indications* (Australia), WT/DS/290 (Articles 1, 2, 3, 4, 16, 22, 24, 41, 42, and 65)
  - Australia argued that the EC failed to ensure that enforcement procedures as specified in Part III of the TRIPS Agreement are available under its law, contrary to Article 41.1 of the TRIPS Agreement, as a consequence of, *inter alia*, the fact that the EC regulation did not grant the Consultative Committee the authority required by Articles 43, 44, 45, 46 and 48 of the TRIPS Agreement, and did not provide judicial authorities with the authority required by Articles 43, 44, 45, 46, 48 and 49. The Panel, however, ruled that Australia’s inclusion of claims under Articles 43, 44, 45, 48, and 49 in conjunction with Article 41 were not included in its original claim and therefore were outside the Panel’s terms of reference.<sup>63</sup>
- *US – Section 211 Appropriations Act*, WT/DS/176 (Articles 2, 3, 4, 15, 16, 42)
  - The Panel found Section 211(a)(2) to be inconsistent with Article 42 of the TRIPS Agreement but the Appellate Body reversed the Panel's finding.<sup>64</sup>

Although, in each of these cases, neither the panel nor appellate body directly addressed a claim of a TRIPS violation based on Article 41 alone and its obligation of “effective” IPR enforcement, it is interesting to note their tangential comments regarding the scope of Article 41.<sup>65</sup>

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<sup>61</sup> See Report of the Panel, *EC – Trademarks and Geographical Indications* (US), WT/DS174/R (15 March 2005) at para. 7.759.

<sup>62</sup> See Report of the Panel, *EC – Trademarks and Geographical Indications* (US), WT/DS174/R (15 March 2005) at para. 8.2.

<sup>63</sup> See Report of the Panel, *EC – Trademarks and Geographical Indications* (Australia), WT/DS290/R (15 March 2005) at paras. 7.44, 7.49.

<sup>64</sup> See Report of the Panel, *United States – Section 211 Omnibus Appropriations Act of 1998*, WT/DS176/R (6 August 2001) at para. 8.102; Report of the Appellate Body, *United States – Section 211 Omnibus Appropriations Act of 1998*, WT/DS176/AB/R (2 January 2002) at para. 231.

<sup>65</sup> Report of the Panel, *United States – Section 211 Omnibus Appropriations Act of 1998*, WT/DS176/R (6 August 2001):

8.97 In interpreting Article 42, we look next at its context. The Article appears in Section 2 of Part III of the TRIPS Agreement, which deals with the enforcement of intellectual property rights. The inclusion of this Part on enforcement in the TRIPS Agreement was one of the major accomplishments of the Uruguay Round negotiations as it expanded the scope of enforcement aspect of intellectual property rights. Prior to the TRIPS Agreement, provisions related to



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In addition to the cases above, the US filed two other sets of WTO dispute settlement cases respecting IPR enforcement, but they were resolved by mutual agreement without going to a panel. They are:

- *Denmark – Measures Affecting the Enforcement of IPR*, WT/DS83
- *Sweden – Measures Affecting the Enforcement of IPR*, WT/DS86
  - US alleged that Denmark & Sweden failed to make provisional measures available in the context of civil proceedings involving IPR, and this violated TRIPS Articles 50, 63 and 65
- *EC – Enforcement of IPR for Motion Pictures and Television Programs*, WT/DS124
- *Greece – Enforcement of IPR for Motion Pictures and Television Programs*, WT/DS125

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enforcement were limited to general obligations to provide legal remedies and seizure of infringing goods. Article 41 of Section 1 of Part III lays down the general obligations applicable to all enforcement measures. It provides, *inter alia*, that "Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement" (paragraph 1) and that "[p]rocedures concerning the enforcement of intellectual property rights shall be fair and equitable" (paragraph 2). Article 42—together with the other provisions of Section 2 of Part III—elaborates upon the general obligations contained in Section 1 of the same Part in respect of civil and administrative procedures and remedies. As concerns the requirement of effectiveness, the object and purpose of the enforcement provisions of Part III is expressed in the Preamble to the Agreement, which recognizes the need of "the provision of effective and appropriate means for the enforcement of trade-related intellectual property rights".

Report of the Appellate Body, *United States – Section 211 Omnibus Appropriations Act of 1998*, WT/DS176/AB/R (2 January 2002):

206. Section 1 of Part III lays out "General Obligations" of Members. According to Article 41.1 of Section 1, Members are required to ensure that enforcement procedures as specified in Part III are available under their domestic law "so as to permit effective action against any act of infringement of intellectual property rights covered by [the TRIPS] Agreement". These enforcement procedures must include expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. At the same time, these procedures must be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide safeguards against their abuse. These procedures provide for an internationally-agreed minimum standard which Members are bound to implement in their domestic legislation.

Report of the Panel, *EC – Trademarks and Geographical Indications* (Australia), WT/DS290/R (15 March 2005):

7.48 The Panel considers that Article 41.1 imposes an obligation. The language of that provision is expressed in terms of what Members "shall" ensure and is not hortatory. The substance of the provision adds qualitative elements to the procedures specified in Part III through use of terms such as "effective", "expeditious" and "deterrent" and is not redundant. ...

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- US claimed that a significant number of TV stations in Greece regularly broadcast copyrighted motion pictures and television programs without the authorization of copyright owners.
- US contended that effective remedies against copyright infringement did not appear to be provided or enforced in Greece in respect of these broadcasts.
- US alleged a violation of Articles 41 and 61 of the TRIPS Agreement.

In sum, as asserted by various companies, interest groups, and the USTR, there are multiple potential grounds for alleging TRIPS violations by China, whether focused on deficiencies in China's IPR laws "as such" or on specific cases of inadequate and ineffective IPR enforcement. The case against copyright infringement of movies and TV programs in Greece provides a prior example of a specific IPR case. There are many specific instances in China of inadequate enforcement of its IPR laws, such as the issue of criminal liability thresholds being too low to be a deterrent to infringement, to which this example could be applied. Alternatively, a potential case could be based on the claim that specific aspects of China's IPR laws "as such" violate its TRIPS obligations and have resulted in nullification or impairment of benefits to the US. A determination of the best approach would likely depend on the amount and quality of specific evidence of TRIPS violations available, as well as strategic policy decisions as to whether it would more advantageous to take a targeted approach or to focus on achieving as large an effect as possible.<sup>66</sup>

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<sup>66</sup> In contrast to the dispute settlement path, the EC has made a number of submissions to the WTO TRIPS Council urging the Council to "carefully examine compliance of Members with the enforcement provisions of TRIPS." See *Enforcement of Intellectual Property Rights*, Communication from the European Communities, IP/C/W/448 (9 June 2005) at para. 3. In particular, the EC said:

19. It is unquestionable that the TRIPS Agreement establishes the freedom of each Member to determine the appropriate method of implementing its provisions. However, ultimately such implementation must allow the adequate prosecution of the objectives of TRIPS.

20. In that respect, the EC would like to recall that, according to Article 41.1 of the TRIPS Agreement, "*Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit **effective action** against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements...*". Hence, we have an obligation to take account of the present situation and find the ways to combat and reduce counterfeiting and piracy.

21. Considering the TRIPS Council assignments, in particular its task to "*monitor the operation of this Agreement and, in particular, Members' compliance with their obligations hereunder...*" explicitly mentioned in Article 68 TRIPS, there is no doubt that this Council is the appropriate forum to address the issue.

22. In view of the above, the EC submit that the deficient enforcement of IPRs is a major concern that should be carefully considered in the forthcoming months. ....

*Id.* at paras. 19-22 (emphasis in original). The EC recently renewed its proposal that the TRIPS Council foster a dialogue among WTO Members with a view to identifying solutions to implementation deficiencies on IPR

**The Way Forward Requires Practical Approaches**

The above discussion describes how IPR issues have been playing out. The practical question before us, however, is how the US and China can make real progress in improving IPR protection and enforcement. At this point, based on my past research and presentations to the Commission as well as my experiences in China meeting with government and industry officials, I would like to offer some personal observations on the way forward.

While a WTO case is always a possibility, the US generally tries to work with new Members to provide assistance in achieving their obligations rather than to turn to the dispute settlement path. The ultimate object is an acceptable IPR system in China. It is hoped of course that additional pressure applied to China will lead to greater and better results. But we are at this stage so far from an acceptable situation that it would be useful to look "outside the box" for possible solutions.

First, to the extent China can accomplish "quantum leaps" in IPR improvement by means of government mandate, all the better. Thus, China's directive regarding use of genuine software on government computers and pre-loading of genuine software on all computers manufactured or imported into China is a positive development.

Second, China can and should make changes to their statutes and regulations to improve and enhance IPR protection and enforcement. Thus, for example, it would be a helpful development if China would revisit the subject of IPR criminal liability and provide real deterrence.

Third, there is a need to reduce the portion of trade that needs to be reviewed or inspected for possible IP violations by Customs here and there. For example, the US and China could look to the programs that US Customs and Border Protection have instituted as models, such as C-TPAT (Customs-Trade Partnership Against Terrorism) program. C-TPAT is a voluntary government-business initiative aimed at strengthening and improving the overall international supply chain and U.S. border security. Among the benefits to those who participate in C-TPAT are reduced number of CBP inspections (therefore, reduced border delay times) and priority processing for CBP inspections. The US and China could apply the same model to their IP trade issues. Thus, they could enlist the private sector to become partners in IP border enforcement. Like C-TPAT, those who participate could benefit from lessened border scrutiny, fewer inspections, and expedited customs processing. The goal of such a program would be to identify IP-compliant importers and their suppliers who would be subject to reduced inspections so that the customs authorities could focus heightened scrutiny on high-risk importers. The cost of increased inspections for high-risk imports could be passed on to the import community, which would allow the government to hire more border inspection resources. The point is that there is a need for innovative programs that will provide an incentive for importers to work with their foreign suppliers to guarantee that the goods they import from China are IP compliant.

Fourth, there is a gap in IP enforcement rights that needs to be closed through appropriate legislation. Specifically, the US should consider legislation to ensure that companies that buy

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enforcement. See *Enforcement of Intellectual Property Rights*, Communication from the European Communities, IP/C/W/468 (10 March 2006).

**USCC Hearing on China's Enforcement of IPR**  
**Statement of Terence P. Stewart, Esq.**  
**June 8, 2006**

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IPR-protected equipment have some legal ability to reach imported products made on IP-infringing equipment. It is the case that in certain situations, manufacturing equipment protected by intellectual property rights has been misappropriated by foreign equipment manufacturers. Such IPR-infringing equipment has then been used to produce other products which are exported to the US. US companies that lawfully use IPR-protected equipment to manufacture similar products are disadvantaged by having to compete with imported products manufactured using IPR-infringing equipment. Currently, this situation is not addressed by US law for the downstream industry. It is critical that US companies lawfully producing products using IPR-protected manufacturing equipment who are forced to compete with producers using IPR-infringing equipment be permitted a legal means to sue the beneficiaries of IP-infringing equipment.