

THE U.S.–CHINA DISPUTE OVER TRIPS ENFORCEMENT

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ABSTRACT

Intellectual property protection and enforcement has been the subject of perennial disputes between China and the United States since China reopened the country to foreign trade in the late 1970s. In the past, the United States relied on threats of trade sanctions, threats of non-renewal of most favored nation status, and opposition to China's entry into the World Trade Organization ("WTO") to induce China to strengthen intellectual property protection and enforcement. With China's entry into the WTO, however, the United States can now take advantage of the WTO dispute settlement process to induce China to offer stronger intellectual property protection.

This Paper examines the first WTO dispute between China and the United States over the protection and enforcement of intellectual property rights. It begins by outlining the origin of the United States' complaint against China. It also explores the challenges to filing a complaint regarding a lack of enforcement based on a general impression, as compared to noncompliance based on specific violations. The Paper then examines the complaint the United States eventually filed in April 2007. It discusses the key arguments made by both China and the United States as well as the major findings in the WTO panel report. This Paper concludes by focusing on the remedial actions China has taken to bring its law into conformity with the TRIPS Agreement. It also examines the key lessons for the United States, China, and other less developed countries, as well as intellectual property rights holders in general.

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The spellings in the book chapter have been Americanized, and the present version omits all the footnotes in the original work.

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I. INTRODUCTION

Intellectual property protection and enforcement has been the subject of perennial disputes between China and the United States since China reopened the country to foreign trade in the late 1970s. To date, it remains one of the thorniest issues in the U.S.–China relationship, along with trade deficit, currency exchange, and military build-up. In the mid-1980s and early 1990s, the United States pushed aggressively for intellectual property reforms in China. Notwithstanding some initial success in introducing laws and establishing an enforcement infrastructure on Chinese soil, these efforts have not led China to develop a level of intellectual property enforcement that meets the expectations of the United States and its rights holders.

In February 2005, several trade groups, including the International Intellectual Property Alliance, the National Association of Manufacturers, and the U.S. Chamber of Commerce, recommended that the Office of the United States Trade Representative (“USTR”) take China to the World Trade Organization (“WTO”) based on a lack of enforcement of intellectual property rights. Such action was unavailable a decade ago. At that time, China had yet to join the WTO. To induce China to strengthen intellectual property protection and enforcement, the United States had to resort to threats of trade sanctions, threats of non-renewal of most favored nation status, and opposition to China’s entry into the WTO.

As I have noted in the past, these threats were largely ineffective and led to what I described as the “cycle of futility,” in which China and the United States threatened each other with trade wars, only to back down at the eleventh hour with a compromise that did not provide sustained improvements in intellectual property protection and enforcement. Even worse, the threats created resentment among the Chinese people while inflicting collateral damage on the United States’ longstanding interests in promoting human rights, civil liberties, and the rule of law. The unrealized threats also cost the U.S. government credibility with the Chinese leaders and support from the business constituency, which increasingly criticized the administration for having a counterproductive U.S.–China foreign policy.

In December 2001, however, China joined the WTO. Under the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS Agreement”), all intellectual property disputes arising under the Agreement are required to be settled through the mandatory WTO dispute settlement process. The international trading body also prohibits its members from taking retaliatory measures before exhausting all remedies available under WTO rules. Although unilateral sanctions are out of the question unless the dispute falls outside the scope of the WTO agreements, China’s membership gives the United States a new process that includes good offices, consultations, negotiations, dispute settlement, and arbitration. For the first

time, the United States can resolve its intellectual property dispute with China through the WTO dispute settlement process.

This paper examines the first dispute between China and the United States over the protection and enforcement of intellectual property rights. It begins by outlining the origin of the United States' complaint against China. It also explores the challenges to filing a complaint regarding a lack of enforcement based on a general impression, as compared to noncompliance based on specific violations. The paper then examines the complaint the United States eventually filed in April 2007. It discusses the key arguments made by both China and the United States as well as the major findings in the WTO panel report. This paper concludes by focusing on the remedial actions China took to bring its law into conformity with the TRIPS Agreement. It also examines the key lessons for the United States, China, other less developed countries, as well as intellectual property rights holders in general.

II. A GENERAL COMPLAINT

In April 2005, the USTR released the long-awaited results of its out-of-cycle review on China. The report stated that “the United States remains gravely concerned . . . that China has not resolved critical deficiencies in IPR protection and enforcement and, as a result, infringements remain at epidemic levels.” Based on these concerns, the USTR elevated China back to the Priority Watch List, marking the country's first post-WTO appearance on the list. As the USTR claimed, China failed to provide adequate compliance with both the TRIPS Agreement and other commitments made at the April 2004 meeting of the U.S.–China Joint Commission on Commerce and Trade (“JCCT”). The administration also expressed its intention to invoke the transparency provisions of the TRIPS Agreement to formally request information concerning selected intellectual property enforcement issues, including criminal and administrative penalties.

To the disappointment of major trade groups and some legislators, the USTR decided against filing a formal complaint with the WTO Dispute Settlement Body (“DSB”) following its out-of-cycle review. Had the administration done so, the complaint would have marked the second WTO dispute the United States filed against China at that time. Nevertheless, the USTR declared its intention to “use WTO instruments whenever appropriate to address . . . concerns regarding the unacceptable levels of counterfeiting and piracy in China.” Frustrated with the announcement, Senator Byron Dorgan introduced in Congress a resolution calling for the USTR to bring a formal complaint before the WTO regarding violations of intellectual property rights in China. Meanwhile, U.S. business groups repeated their requests for the administration to take formal WTO action.

In October 2005, the United States, along with Japan and Switzerland, invoked Article 63.3 of the TRIPS Agreement to formally

request “clarifications regarding specific cases of IPR enforcement that China has identified for the years 2001 through 2004, and other relevant cases.” Despite these requests, the United States had yet to file a complaint before the WTO against China on intellectual property enforcement. The USTR’s “wait-and-see” approach is understandable. Although the WTO dispute settlement process provides an effective tool to improve intellectual property protection in China, a lack of enforcement of intellectual property rights based on a general impression does not present a strong case for the United States. If the United States pursues a weak case before the WTO, there will be serious adverse implications for not only China and the United States, but also the international community at large. Pursuing such a case would have been worse than not bringing the case at all.

To understand the limitations of the WTO dispute settlement process and the challenges inherent in the United States’ potential challenge, it is important to distinguish a *general* complaint from a *specific* complaint. While the latter, which the United States eventually filed, focuses on the non-implementation of discrete provisions of the TRIPS Agreement, the former highlights a lack of enforcement by utilizing those TRIPS provisions that call for effective or deterrent enforcement of intellectual property rights in broad, general terms. Even though a general complaint technically involves violations of the TRIPS Agreement, it is closer to a non-violation complaint—a complaint of nullification or impairment of benefits despite a lack of substantive violations. This section will discuss six different reasons why it would have been ill-advised for the United States to hastily file a general complaint.

A. *Lack of Definition*

Although Article 41.1 of the TRIPS Agreement stipulates that each WTO member needs to provide effective intellectual property enforcement, it does not define what constitutes “effective” protection. There is no doubt that a software piracy rate of 90 per cent, as stated in the Business Software Alliance study at that time, provides strong evidence of ineffective enforcement. However, critics have challenged the accuracy of these figures. For example, Gary Shapiro, the president of the Consumer Electronics Association, described the figures as “absurd on [their] face” and “patently obscene.” Likewise, Carsten Fink, WIPO’s first-ever chief economist, pointed out that the figures were determined based on “questionable assumptions about market demand” in the surveys. Indeed, because the piracy figures are usually supplied by self-interested trade groups, such as the music, movie, and software industries, the WTO panel is unlikely to take these data at face value.

Moreover, everything is relative. If the study by the Business Software Alliance was accurate—which is a very big if—we should not ignore the fact that the United States has a software piracy rate of 21 per cent

while other developed countries, like France, Italy, and Spain, have a piracy rate that ranges from the mid-forties to the low-fifties. A piracy rate of 90 per cent for a country that did not have intellectual property laws 30 years ago is not as problematic as a rate of 40 to 50 per cent for a country that has enjoyed a well-established intellectual property system for more than two centuries.

In fact, as some commentators have suggested, one could interpret the word “effective” in light of the preamble of the TRIPS Agreement, the objectives and principles set forth in Articles 7 and 8, and the technology transfer requirement in Article 66. Such interpretations would ensure that the level of protection China should provide be viewed in light of its domestic socio-economic conditions, technological needs, development goals, and public policy objectives. What is considered ineffective in the United States, therefore, could be considered effective in China.

B. *Lack of Evidence*

Even if the WTO panel could come up with a piracy figure that could be used to determine ineffective enforcement, the United States might ultimately lack sufficient non-anecdotal evidence to show that China had failed its obligations. In the run-up to the WTO complaint, U.S. businesses were reluctant to supply the USTR with piracy and counterfeiting data concerning China. Although the USTR contacted industry groups and published a notice in the *Federal Register*, it received only 34 submissions from the industry through the Section 301 submission procedures in 2005. As former USTR Robert Zoellick noted shortly before he left office, the administration needed more information if it were to take formal WTO action against China. In August 2005, the USTR published another notice on the *Federal Register* calling for additional information concerning China’s compliance with its WTO commitments.

Among all of the American businesses in China, small and midsize firms were particularly reluctant to disclose information. Their reactions are understandable. *Guanxi* (personal connections) and political capital are essential to doing business in China, and these firms feared that the information they provide would result in political or business repercussions, such as permit delays, application denials, or bid rejections. Moreover, competition in China had become increasingly stiff; American firms not only had to compete with local firms, but also with the many other foreign firms that now rush to the Chinese market because of “China fever.” As a former minister counselor at the U.S. embassy in Beijing noted, “our leaders may be right, but the Europeans get the contracts.” It is, therefore, no surprise that these firms were concerned about taking political action that could hurt their economic bottom line.

To make the administration's position more difficult, some firms disagreed with the administration and powerful trade groups over whether the United States should take formal WTO action against China. While trade groups and multinational corporations "could arouse enormous media attention" or obtain additional protection from local or even national leaders, because of their huge overall investments, small and midsize firms do not have this luxury. Because they are usually more vulnerable than their larger counterparts, they found WTO action counterproductive and undesirable while fearing the resulting bilateral tension or potential retaliation.

In fact, as Daniel Chow pointed out, small and midsize firms were not the only ones that refused to cooperate with the USTR:

[Even] brand owners and industry groups, including the Quality Brands Protection Committee, were reluctant to approach the USTR to broach the topic of trademark counterfeiting because of their general reluctance to involve the US government in dealing with the problem for fear of retaliation against their businesses from the Chinese government.

It is, therefore, understandable why the USTR's section 301 reports are often dominated by figures supplied by the music, movie, and software industries.

Finally, some American firms did not see it as their business to think about the long-term implications of the United States' policy toward China. As one venture capital manager responded when questioned about the long-term impact on the U.S. economy caused by outsourcing of research-and-developments to China and India: "[L]ook, I'm a loyal citizen but what happens to the United States is not my job. I have a fiduciary responsibility to my investors. The guys in Washington are supposed to be worrying about the United States."

Even for those who favored formal WTO actions, they were confronted with what game theorists have called a classic "prisoner's dilemma," in which players tend to cheat on each other due to an information deficit concerning choices others have made or will make. While coordination by the USTR and the introduction of a confidential process may help improve both the quantity and quality of information collected from American rights holders, some firms may consider it a win-win scenario to stay out of the conflict altogether. If they choose to do so and the United States prevails, they will be able to free ride on the efforts of their competitors and partners and thereby benefit from the WTO ruling. If the United States fails, however, they will still be able to maintain their *guanxi* and political connections. Even better, by demonstrating their loyalty throughout the process, they might be rewarded with more and better *guanxi*, which, in turn, would translate into greater commercial success.

C. *Difficulty with Intellectual Property Enforcement*

Even if the United States were able to amass the needed evidence, the WTO process has posed structural challenges to a general complaint about inadequate intellectual property enforcement. Virtually all existing WTO cases have focused on the non-implementation of specific provisions, rather than a lack of enforcement based on a general impression. The closest complaints one could find involved those filed by the United States against Greece and the European Communities in 1998. In those complaints, the United States claimed that Greece (and by extension the European Communities) violated Articles 41 and 61 of the TRIPS Agreement by not providing effective enforcement of intellectual property rights. The cases were eventually settled.

Of all the provisions of the TRIPS Agreement, Articles 41.1, 46, and 61 provide the strongest support for the U.S. complaint. Article 41.1 requires a WTO member to “ensure that enforcement procedures as specified in [Part III of the TRIPS Agreement] are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement.” Article 46 states an obligation for the judicial authorities to “create an effective deterrent to infringement.” Article 61 requires member states to provide such remedies as “imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity.”

Notwithstanding these provisions, challenging China on non-implementation grounds is likely to be very difficult, as most of the laws required under the TRIPS Agreement are already on the books. In the early 1990s, China made many substantial revisions to its intellectual property system in response to agreements signed with the United States. In the run-up to the WTO accession, China also undertook a complete overhaul of its copyright, patent, and trademark regimes. As a result of these changes, the problem with intellectual property protection in China is no longer with its laws, but rather with the enforcement of those laws. As the *2005 National Trade Estimate Report on Foreign Trade Barriers* acknowledged, “while China has made significant progress in its efforts to make its framework of laws, regulations and implementing rules WTO-consistent, serious problems remain, particularly with China’s enforcement of intellectual property rights.”

Compared to a challenge on non-implementation grounds, challenging Chinese intellectual property laws on non-enforcement grounds is even more difficult. If the United States chooses to do so, the TRIPS Agreement might actually support China’s position. Under Article 41.5 of the Agreement, a WTO member is not required to devote more resources to intellectual property enforcement than to other areas of law enforcement. If China is able to show that its enforcement problems with piracy and

counterfeiting are no more excessive than their problems with, say, tax collection (which are very serious), China is likely to prevail. After all, it is hard to imagine any country putting intellectual property protection ahead of tax collection. Nor does the WTO require it to do so.

In addition, as an attorney experienced with U.S.–China trade reminded us:

Although China seems committed to its reforms, it still lacks the legal infrastructure to competently and efficiently handle intellectual property disputes. Beijing’s ability to enforce its intellectual property regulations is [also] seriously hampered by local resistance to change, particularly when local authorities sense that such change will take power out of their hands.

It is, therefore, no surprise that the late Sir Hugh Laddie found the United States’ initiation of a WTO dispute “absolutely absurd.” As he explained, it would have made sense to push China harder on the enforcement front had the country not worked hard to improve its intellectual property system. However, since it was already trying its best, there might be limited benefits to pressing the country even harder to achieve goals that could hardly be realized. After all, as Martin Dimitrov reminded us, “[c]ontrolling for population, China already has the highest volume of IPR enforcement in the world.” It is, indeed, difficult to argue that the protection and enforcement of intellectual property rights in China is far worse than that in countries at similar levels of development.

Even more problematic, the intellectual property problems in China are actually not that different from those experienced in the United States—and, for that matter, other developed countries. Since the emergence of Napster and other file-sharing technologies, virtually all developed countries have been struggling with massive unauthorized copying problems. In the past few years, the U.S. recording industry has filed more than 35,000 lawsuits against individuals distributing copyrighted songs illegally via peer-to-peer networks. Across the world, file-sharing problems have become so severe that courts are now inundated with cases addressing secondary copyright liability. The proposed Anti-Counterfeiting Trade Agreement (“ACTA”), for example, includes a lengthy and highly controversial chapter that aimed at strengthening or setting new international intellectual property enforcement norms in the digital environment.

At some point, we just need to recognize the fact that intellectual property, due to its intangible nature, is generally treated differently from physical property. It does not matter whether it is in China or the United States. In China, for example,

[p]rivate parties who approach PSBs [public security bureaus] with complaints of counterfeiting find that PSBs are generally not interested in launching a criminal investigation unless unusual circumstances exist, such as serious harm to consumers

or very significant quantities of counterfeits or high economic stakes.

Because these bureaux “are occupied with the myriad of serious and petty crimes,” they generally do not consider intellectual property crimes to be a top priority. Moreover, cases are rarely turned over to or accepted by prosecutors. As Andrew Mertha pointed out, the PSB will not send cases to prosecutors unless the chances for success are very high. Meanwhile, “prosecutors, like the PSB, will only take a case if they are almost certain that they will gain a conviction.”

In the United States, despite stronger protection and respect of intellectual property rights, pirated and counterfeit goods can be easily found in major cities, like New York or Washington. In New York, for example, Canal Street, the Counterfeit Alley in the Garment District, and the Harlem district are known sanctuaries for pirates and counterfeiters. It is also not uncommon to find street vendors selling pirated CDs and DVDs or counterfeit luxury handbags in the presence of American police officers. While these officers are very unlikely to buy those fake products, the fact that they have no problems—either moral or legal—with the street vending activities has greatly undermined the United States’ moral claim.

In addition, U.S. federal prosecutors remain reluctant to take piracy and counterfeiting cases seriously. Statistics, for instance, have shown that “[b]oth the FBI and the U.S. attorneys assign a low priority to IPR crimes.” An industry representative once remarked that some U.S. district attorneys have simply refused to prosecute cases of intellectual property crimes. Likewise, as Tim Phillips noted in his book *Knock-off*, a U.S. attorney reportedly told a Hermès attorney, “We’re a bit too busy looking after terrorist threats at the moment.”

The U.S. authorities’ lack of interest in pursuing intellectual property crimes is rather interesting. After all, the Chinese authorities have been mercilessly criticized for their reluctance to take action against alleged infringers, notwithstanding their apparent capacity and resource constraints. Moreover, capacity and resource constraints arise in both developed and less developed countries. As Carsten Fink reminded us, “greater spending on counter-terrorism in the U.S. after September 11, 2001 has left fewer resources for fighting crime, reportedly causing rates of crime to go up in many US cities.” Likewise, commentators have noted that it is “simply impossible to raid all the warehouses [in New York] all of the time without swallowing the entire [New York Police Department’s] anti-counterfeiting budget and taking officers off other duties.”

D. *Weak Enforcement Norms in TRIPS*

While significant enforcement challenges exist at both the domestic and multilateral levels, the enforcement problems have been greatly

exacerbated by the weakness and inadequacy of the enforcement provisions of the TRIPS Agreement. Unlike the substantive provisions in the Paris Convention for the Protection of Industrial Property and the Berne Convention for the Protection of Literary and Artistic Works (“Berne Convention”), the two centuries-old intellectual property agreements that have been incorporated by reference into the TRIPS Agreement, the TRIPS enforcement provisions were rather new and primitive. As Jerome Reichman and David Lange observed, the enforcement procedures “on closer inspection appear to constitute a set of truly minimum standards of due process on which future legislation will have to build.” It is small wonder that Professors Reichman and Lange considered Part III of the Agreement its “Achilles’ heel.”

To some extent, the difficulty in developing strong and effective enforcement norms in the Agreement can be attributed to the political dynamics behind the TRIPS negotiation process. As Ruth Okediji aptly observed, when the negotiation of the TRIPS Agreement is analyzed under game theory, the WTO members can be seen as playing “a two-stage game” with respect to the negotiation and enforcement of the Agreement. Although commentators and policymakers in less developed countries questioned the Agreement’s desirability and fairness during the TRIPS negotiations, developed countries won the first stage negotiation game by forming coalitions among themselves and by convincing less developed countries to join them in an agreement that created minimum standards for intellectual property protection. The strategies used to complete the first stage game, however, have left developed countries with a much harder enforcement game to play now—both among themselves and vis-à-vis less developed countries. As Professor Okediji elaborated:

Having accomplished the primary goal of binding developing countries to high standards of intellectual property protection, developed countries must now deal with the costs of “winning” the first stage game. These include constraints on sovereign discretion in the area of policy development, and battles over extant policy differences between the member states.

In fact, as less developed countries become increasingly dissatisfied with the international intellectual property regime and as they have acquired more sophisticated knowledge about it since the TRIPS negotiations, it is highly unlikely that developed countries will be able to win the enforcement game as easily as they won the negotiation game.

Moreover, enforcement, by its nature, is a difficult game to play. That game is further complicated by the fact that some countries might have negotiated treaties knowing well in advance that those treaties would not be fully enforced due to domestic implementation constraints. As Andrew Mertha and Robert Pahre pointed out, “a state with an implementation constraint [like China and other less developed countries] may make greater

concessions knowing that they will not be implemented.” Likewise, knowing the limitation of the international system, negotiators in developed countries might also want to score quick political victories by showing achievements in their international negotiations.

E. *Adverse WTO Rulings*

Although the United States has scored major victories against less developed countries, the WTO process does not benefit the United States all the time. Since the inception of the WTO, the United States has lost a number of major disputes. In June 2000, for example, the United States lost its dispute with the European Communities over section 110(5) of the U.S. Copyright Act, which enables restaurants and small establishments to play copyrighted music without compensating copyright holders. In a subsequent ruling, a WTO panel found inconsistent with the TRIPS Agreement section 211(a)(2) of the U.S. Omnibus Appropriations Act of 1998, which prohibited the registration or renewal of trademarks previously abandoned by trademark holders whose assets have been confiscated under Cuban law. Another WTO panel also curtailed the ability of the U.S. administration to pursue retaliatory actions before exhausting all remedies permissible under WTO rules, even though it nominally upheld sections 301–310 of the Trade Act of 1974.

There is no doubt that the United States and the European Communities dominated the dispute settlement process in the first few years of the WTO’s existence, especially when the dispute involved the TRIPS Agreement. Many of the United States’ early losses were due to its archrival, the European Communities. In recent years, however, less developed countries have made more frequent use of the WTO process, including in the intellectual property area. In February 2001, for example, Brazil initiated a complaint against the United States over the protection of patent rights in inventions made with U.S. federal assistance, partly in response to the U.S. complaint against Brazil over the “local working” requirement in its patent law. Most recently, Brazil and India also filed complaints against the European Union and the Netherlands over the repeated seizure of in-transit generic drugs.

In fact, success in the WTO process does not always depend on a member’s size or its economic strength. In November 2004, for example, the Caribbean islands of Antigua and Barbuda successfully challenged U.S. laws on internet and telephone gambling. Given the victory of these two tiny Caribbean islands over a trading giant like the United States, one could imagine how much more even the fight would be had China chosen to “face off” with the United States.

As in most WTO cases, it is unlikely that a single party, however strong it is, would win the entire case. Because of the customary length of WTO panel reports and their unusual detail, both the winning and losing

parties are likely to score some important points. As William Davey observed, “the US lost the Film case and the EC lost the Section 301 case and neither appealed, perhaps because in each case the losing party won some useful points.” Thus, if the United States files a complaint against China in the WTO process, it has to be ready for China to score some major points even if it has an overall win.

Obviously, this argument can cut both ways. Just as China would score some useful points should it lose the case, the United States would do the same and, therefore, would be shielded from a complete disaster if it loses. Nevertheless, from the standpoint of the United States and other developed countries, it would be unwise and dangerous for the United States to take WTO action on a poor case, because the points the United States scores might not compensate for the symbolic effect of losing the first WTO case against China. Such a loss would also have a devastating impact that could spill over into other areas of international trade as well as into disputes involving other developed countries.

F. *Need for Strategic Use of the WTO Process*

The WTO dispute settlement process, if used properly, will help the United States’ long-term interests in promoting free trade by providing China with the needed guidance as it makes the transition to full compliance with WTO rules. As Long Yongtu, the chief negotiator for China’s entry into the WTO, expressed concern at the time of entry, “lacking expertise and professionals qualified on international rules may make China[.] . . . ‘a blind man riding a blind horse’ within the WTO.” Well-conceived challenges before the DSB, therefore, are needed to provide guidance during this critical transitional period.

As I have discussed elsewhere, foreign pushes are sometimes needed to fuel China’s intellectual property reforms. Indeed, commentators, like noted China analyst Kenneth Lieberthal, have reminded us that “the reformers in the government plan to use the WTO entry requirements to force the domestic reforms that they believe will make Chinese firms competitive internationally in the coming decades.” As a result, an adverse report by a WTO panel “may help [a] respondent’s government counteract domestic pressures if that government can honestly argue that condemnation by [the WTO] is likely and retaliation by trading partners is possible.”

In addition, an adverse WTO report can help break up the local monopolies and entrenched piracy interests that are lobbying against legal reforms and greater competition within the country. Thus, WTO challenges need to be strategically used to maximize the benefits created by China’s WTO accession. If the right complaint is brought, the United States might even be able to enlist the support of local firms, which are equally concerned

about the anti-competitive behavior of the monopolies and entrenched players.

Although the WTO has a broad coverage, some complaints are less well-suited than others for the WTO dispute settlement process. For example, the United States failed in its attempt to use the process to open the Japanese market for American films. If the United States is not careful in bringing these challenges, it might create a new “cycle of futility” similar to the one created in the early 1990s, in which China and the United States repeatedly threatened each other with trade wars, only to back down at the eleventh hour with a compromise that did not provide sustained improvements in intellectual property protection. In this new cycle, the United States might threaten to take, or might actually take, formal WTO action on inadequate intellectual property enforcement, only to again find unsustainable improvements in intellectual property protection in China after a short period of rapid improvement.

It is important to remember that a formal WTO complaint will strain the bilateral relationship between China and the United States, regardless of who eventually wins. At the time when the United States first considered filing a WTO complaint against China on intellectual property enforcement, it had filed only one complaint against China with the DSB. That complaint, which focused on a value-added tax on integrated circuits, was quickly settled. China also has been a co-complainant in only one dispute with the United States. That complaint concerned safeguard measures on steel imports, and the United States lost the dispute despite appealing to the Appellate Body. Given the limited number of complaints the United States has filed against China (two at that time), “initiation of a complaint would be something of a slap in the face. The ignominy of a loss would also loom larger.” Nevertheless, as more complaints are filed and as both parties have their share of wins and losses, the impact of a WTO dispute on bilateral relations will be greatly reduced, and the consequences of filing a risky case will be less severe.

China spent 15 years negotiating exhaustively for its entry to the WTO. While policymakers and commentators initially expressed reservations about China’s joining the international trading body, most of them, by now, have agreed that China’s WTO accession will benefit the international trading system in the long run. Some commentators have even suggested that China will play a major role in the organization, given the fact that it joined the WTO “at a time when trade protectionism and unilateralism threaten to re-emerge, and the demand for a more equitable distribution of the benefits of globalization is loud.” Thus, if the United States wants the WTO and the international trading system to be successful, it has to be patient and provide the much-needed guidance as China learns to become a respectable member of the international trading body.

III. A SPECIFIC COMPLAINT

In April 2007, the United States filed a formal complaint against China concerning China's failure to protect and enforce intellectual property rights pursuant to the TRIPS Agreement. In lieu of a complaint based on a general impression, the USTR filed a much narrower complaint challenging Chinese intellectual property laws on only an "as such" basis. The complaint focused on four particular issues: (1) the high thresholds for criminal procedures and penalties in the intellectual property area; (2) the failure of the Chinese customs authorities to properly dispose of infringing goods seized at the border; (3) the unavailability of criminal procedures and penalties for infringing activities that involved either reproduction or distribution, but not both; and (4) the denial of copyright protection to works that have not been authorized for publication or dissemination within China.

As the USTR stated in its press release, "Over the past several years China has taken tangible steps to improve IPR protection and enforcement. However, we still see important gaps that need to be addressed. We will pursue this legal dispute in the WTO and will continue to work with China bilaterally on other important IPR issues." Although the United States framed the complaint as a gap filling exercise, China reacted to the complaint rather differently. As the spokesperson of China's permanent mission to the WTO declared:

For nearly 30 years and particularly since joining the WTO in 2001, China has spared no efforts to improve its IPR legislation, and now the legislation is in full accordance with WTO rules By initiating the case, the United States is actually trying to change the WTO legal structure on IPR protection, with an attempt to impose extra obligations on developing members.

On the same day the TRIPS enforcement complaint was filed, the United States initiated another complaint over the denial of trading rights and distribution services for publications, sound recordings, and audiovisual entertainment products. Specifically, the complaint stated China's failure to honor the commitments to "fully open the right to trade, with some limited exceptions . . . within three years after accession," as explicitly stated in the Accession Protocol. Although the second complaint was technically different from the TRIPS enforcement complaint, it served as a strategic reminder of the interrelationship between the intellectual property protection and market access.

The United States' decision to simultaneously file the two complaints is understandable. A strong information control policy will result in the reduced competitiveness of U.S. cultural and entertainment products. Because of censorship and distribution restrictions, many American copyrighted products, movies in particular, fail to obtain approval despite

their undeniable success in other foreign markets. As a result, rights holders are unable to distribute their products in China, and consumers have to resort to other channels of dissemination or settle for goods on the black market. Although these substitutes are often inferior to the genuine products, many consumers do not have counterparts with which to compare or from which to select. As time passes, the Chinese market becomes saturated with unauthorized substitutes. By the time the market barriers are finally removed, foreign rights holders will have great difficulty entering the market.

By August 2007, the consultations between the two parties had yet to resolve most of the TRIPS enforcement dispute. The only issue that was resolved concerned a clarification on Article 217 of the Criminal Law and the Judicial Interpretation on Several Issues of Concrete Application of Law in Handling Criminal Cases of Infringing Intellectual Property, which permitted the word “and” to be interpreted as “and/or.” As a result, the United States requested for the establishment of a panel to examine only the three remaining claims.

Because the two parties failed to reach a consensus on how the panel was to be composed, the WTO Director-General named the three panel members pursuant to WTO rules. Serving as chair was Adrian Macey, a New Zealand diplomat who was involved in the GATT/WTO negotiations during the Uruguay Round of Trade Negotiations (“Uruguay Round”). Rounding out the panel were Marino Porzio, a Chilean lawyer who served as WIPO Deputy Director General during 1980–1987, and the late Sivakant Tiwari, a Singaporean government attorney who chaired the APEC Intellectual Property Rights Experts’ Group. In addition to China and the United States, the dispute involved 12 third parties—namely, Argentina, Australia, Brazil, Canada, the European Communities, India, Japan, Mexico, South Korea, Taiwan, Thailand, and Turkey. After a request for an extension of the original deadline, the WTO panel released its long-awaited interim report in October 2008. The release of a 135 page final report followed three months later.

Due to space constraints, this paper will not be able to provide an in-depth discussion of every single claim made in the dispute or all the findings of the WTO panel. Instead, it summarizes the key claims made by China and the United States as well as the panel’s major findings. Unlike the panel report, which reversed the order of the claims in the complaint, the following sections discuss the claims in the order stated in the original complaint.

A. *Thresholds for Criminal Procedures and Penalties*

The first claim concerned the thresholds for criminal procedures and penalties. Many commentators and rights holders considered it the most important claim in the dispute. Article 61 of the TRIPS Agreement states that “[m]embers 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.” Because each WTO member is required to apply criminal procedures and penalties to *all* cases involving “wilful trademark counterfeiting or copyright piracy on a commercial scale,” the United States claimed that China had failed to honor its TRIPS commitments by including in its laws high thresholds for applying criminal procedures and penalties to intellectual property infringement.

Consider, for example, the provision for criminal copyright infringement. Article 217 of the Criminal Law states:

Whoever, for the purpose of making profits, commits any of the [specified] acts of infringement of copyright shall, if the amount of illegal gains is relatively large, or if there are other serious circumstances, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined; if the amount of illegal gains is huge or if there are other especially serious circumstances, the offender shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined

Although the provision neither stipulates the amount of illegal gains nor defines such phrases as “relatively large” or “serious circumstances,” Article 5 of the 2004 Judicial Interpretation No. 19 establishes the amount for “relatively large” as “not less than 30,000 Yuan [about USD 4,500 at the time of the panel report].” Article 1 of the 2007 Judicial Interpretation No. 6 further defines “other serious circumstances” as actions taken by anybody who, “for the purpose of making profits, reproduces/distributes, without permission of the copyright owner, a written work, musical work, cinematographic work, television or video works, computer software and other works of not less than 500 *zhang* [copies] in total.”

The United States argued, these thresholds, along with other thresholds concerning “illegal business operation volume, amount of illegal gains (or profits), amount of sales, number of ‘copies’ and ‘other serious circumstances,’” provided a safe harbor to shelter pirates and counterfeiters from criminal prosecution. In the United States’ view, China failed to provide criminal enforcement as required by Article 61 of the TRIPS Agreement and remedies as required by Article 41.1.

In response to the U.S. claims, China pointed out that the country had in place a parallel administrative enforcement system that is “unique” and that “does not have a parallel in most Western systems, including the US legal system.” Due to limited resources and a different socio-legal tradition, public security authorities in China handle serious cases (cases above the thresholds), while administrative enforcement authorities tackle low-scale infringements (cases below the thresholds). Thus, instead of providing a safe

harbor for intellectual property criminals, Chinese law subjects to enforcement “infringement on *any scale*.”

As China informed the panel, the country “employs thresholds across a range of commercial crimes, reflecting the significance of various illegal acts for overall public and economic order and China’s prioritization of criminal enforcement, prosecution and judicial resources.” In China’s view, “the criminal thresholds for counterfeiting and piracy are reasonable and appropriate in the context of [its] legal structure and the other laws on commercial crimes.” This is particularly true when one considers that Chinese criminal law allows private prosecution. China also contended that the existing thresholds are beneficial to rights holders, because they provide standards that are “flexible enough to capture a small number of high-value goods or a large number of low-value goods.”

In addition to justifying the need for criminal thresholds, China instructed the panel on the complexity of its criminal law and explained how the United States had misstated the way thresholds are calculated, not to mention the irony that the United States has also employed numerical thresholds to distinguish between felonies and misdemeanors in the area of intellectual property crimes. As China noted, although the United States repeatedly emphasized how counterfeiters could avoid criminal punishment by limiting their inventory to 499 copies, the thresholds do not operate in such a simple and rigid fashion. For example, courts “may take into account multiple acts of infringement, and not simply the income, profits, sales or number of copies in a single transaction or at a single point in time.” They may also calculate the thresholds over a prolonged period of time—say, up to five years.

Moreover, even though a wide variety of thresholds exists, these thresholds function as alternatives. Courts therefore apply criminal procedures and penalties whenever any one of these numerous thresholds is satisfied. If that is not enough, courts take into account “evidence of collaboration between infringers,” using concepts such as joint liability, criminal groups, and accomplices as laid out in Articles 25 to 27 of the Criminal Law. Courts also “consider semi-finished or unfinished products . . . [as] evidence of preparation and attempt” while using “materials and implements and other reliable indicia” to determine criminal infringement.

Finally, China reminded the WTO panel that the dispute would “represent the first interpretation by the WTO of Articles 1.1 and 41.5 of the TRIPS.” Article 1.1 declares: “Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.” Article 41.5 further stipulates that a WTO member is not required to devote more resources to intellectual property enforcement than to other areas of law enforcement.

As China noted, both Articles 1.1 and 41.5 provided the much-needed context for interpreting the TRIPS Agreement. Article 1.1, for example, provided what China described as “a specific ‘caveat’ that establishes boundaries on obligations, specifically in the realm of enforcement.” China also underscored the fact that “the balance of rights and obligations in TRIPS is . . . very much at stake in this dispute.” In its first written submission, China even argued that the United States should have a higher burden in substantiating its criminal thresholds claim before the DSB. As China stated, “the Panel should treat sovereign jurisdiction over police powers as a powerful default norm, departure from which can be authorized only in light of explicit and unequivocal consent of State parties.” In later submissions, however, China backed away from such a strong sovereignty-based position. Instead, it claimed that it merely sought to assert the “well-accepted interpretive canon *in dubio mitius*,” which the Appellate Body has expressly adopted in other disputes.

In its report, the WTO panel began by carefully explaining why Articles 1.1 and 41.5 do not relieve a WTO member of its obligations under the TRIPS Agreement. As the panel declared, Article 1.1 “does not permit differences in domestic legal systems and practices to justify any derogation from the basic obligation to give effect to the provisions on enforcement.” Taking note of Article 41.5, the panel also noted China’s failure to substantiate how private enforcement would overburden its criminal law system. After all, China conceded that 11 out of 117 crimes were not subject to any specific threshold. As the panel noted, “whilst China may for internal policy reasons frequently use thresholds to define the point at which many classes of illegal act are considered serious enough to be criminalized, China’s legal structure is capable of criminalizing certain acts without recourse to thresholds.”

Notwithstanding its rejection of China’s arguments under both Articles 1.1 and 41.5, the panel “acknowledge[d] the sensitive nature of criminal matters and attendant concerns regarding sovereignty.” The panel further noted that Article 61 is subject to four limitations: (1) trademarks and copyrights (as opposed to all forms of intellectual property rights covered by the TRIPS Agreement); (2) counterfeiting and piracy (as opposed to mere infringement); (3) wilful acts; and (4) infringements “on a commercial scale.”

Ultimately for the panel, the key to deciding the first claim concerned the term “commercial scale,” which was “intentionally vague . . . and left undefined” in the TRIPS Agreement. To give meaning to this important term, the United States proposed that the term be extended

both [1] 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 [2] 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.

In the United States’ view, “WTO Members must criminalize acts that reach a certain extent or magnitude; in other words, that WTO Members must do so even where there is no evidence that the infringer has a commercial motive or purpose.” Among the open-ended quantitative and qualitative factors that the United States proposed for determining whether an activity is “on a commercial scale” are “the market for the infringed goods, the object of the infringement, the value of the infringed goods, the means of producing the infringed goods, and the impact of the infringement on the right holder.” As the United States pointed out, “[s]ome activity would be so trivial or of a *de minimis* character so as *not* to be ‘on a commercial scale’ in some circumstances, such as occasional infringing acts of a purely personal nature carried out by consumers, or the sale of trivial volumes for trivial amounts.” Meanwhile, “a single sale of an infringing product [could] qualify as ‘commercial scale.’”

China, by contrast, proposed to limit “commercial scale” to “a significant magnitude of infringement activity,” thus providing “a broad standard [that is] subject to national discretion and local conditions.” As China claimed, the U.S. approach “reads the word ‘scale’ completely out of the definition.”

In addition to China and the United States, virtually all third parties submitted their proposed definitions of “commercial scale.” While these definitions varied, many of them undoubtedly had been colored by the recently signed free trade agreements with the United States—Australia being a notable example.

In the end, the panel pointed out that the term appeared only once in the entire TRIPS Agreement. Because the term was adopted out of “a deliberate choice,” it “must be given due interpretative weight.” Using the DSB’s customary dictionary approach, the panel explained that the term includes both qualitative and quantitative elements. As the panel explained: “counterfeiting or piracy ‘on a commercial scale’ refers to counterfeiting or piracy carried on at the magnitude or extent of typical or usual commercial activity with respect to a given product in a given market.”

According to the panel, the term “commercial scale” is, therefore, “a relative standard, which will vary when applied to different fact situations.” Because the standard “will vary by product and market,” it responds well to changing market conditions. As the panel reasoned: “The specific forms of commerce are not static but adapt to changing forms of competition due to technological development and the evolution of marketing practices.” The Panel saw “no reason why those forms of commerce should be limited to the forms of commerce that existed at the time of negotiation of the TRIPS Agreement.”

To assess the consistency between China's criminal thresholds and this complex definition, the WTO panel looked to specific conditions in China's marketplace. Although the United States provided evidence in the form of press articles and industry and consultant reports, the panel found the evidence insufficient to "demonstrate what constituted 'a commercial scale' in the specific situation of China's marketplace." As the panel explained, the information provided by the United States was "too little and too random." Even though the submitted press articles were drawn from well-established and well-regarded sources, they "[were] printed in US or other foreign English-language media that are not claimed to be authoritative sources of information on prices and markets in China." They were also uncorroborated and did not "refer to events or statements that would not require corroboration." Given the sources' lack of authority, the panel did not "ascribe any weight to the evidence in the press articles and [found] that, even if it did, the information that these press articles contain is inadequate to demonstrate what is typical or usual in China for the purposes of the relevant treaty obligation."

In sum, without determining whether China has satisfied its TRIPS obligations, the WTO panel found that the United States had failed to substantiate its claim. China therefore prevailed on what many have considered the most important claim in the dispute.

B. *Disposal of Infringing Goods*

The second claim concerned the ability of the Chinese customs authorities to properly dispose of infringing goods seized at the border. Article 59 of the TRIPS Agreement provides:

Without prejudice to other rights of action open to the right holder and subject to the right of the defendant to seek review by a judicial authority, competent authorities shall have the authority to order the destruction or disposal of infringing goods in accordance with the principles set out in Article 46.

Article 46 states further:

In order to create an effective deterrent to infringement, the judicial authorities shall have the authority to order that goods that they have found to be infringing be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, or, unless this would be contrary to existing constitutional requirements, destroyed.

Taken together, these two provisions require a WTO member to empower its judicial authorities to order the uncompensated destruction or disposal of infringing goods seized at the border. Because these provisions only lay out an empowerment obligation, as compared to mandating a specific action, the WTO members are not required to "exercise [the

stipulated] authority in a particular way, unless otherwise specified.” Instead, the authorities retain a high degree of discretion to determine their preferred actions. As China contended, “The obligation in Article 59 to grant ‘authority’ to order destruction does not mean that Members must make a grant of unfettered and unguided discretion and that domestic agencies must have the absolute power to order destruction of infringing goods in any circumstance whatsoever.”

In light of this limited obligation, the United States could not argue that the Chinese customs authorities had failed to destroy infringing goods seized at the border—the action preferred by the U.S. administration and its supportive rights holders. Instead, the United States advanced a much weaker, and rather academic, argument that China had introduced a “compulsory scheme” that had taken away the authorities’ “scope of authority to order the destruction or disposal of infringing goods.” Article 27 of the Regulations on Customs Protection of Intellectual Property Rights (“Customs Regulations”) provided:

Where the confiscated goods which infringe on intellectual property rights can be used for the social public welfare undertakings, Customs shall hand such goods over to relevant public welfare bodies for the use in social public welfare undertakings. Where the holder of the intellectual property rights intends to buy them, Customs can assign them to the holder of the intellectual property rights with compensation. Where the confiscated goods infringing on intellectual property rights cannot be used for social public welfare undertakings and the holder of the intellectual property rights has no intention to buy them, Customs can, after eradicating the infringing features, auction them off according to law. Where the infringing features are impossible to eradicate, Customs shall destroy the goods.

As the United States argued, this provision, in conjunction with the relevant implementing measures and a public notice from the customs authorities, created a compulsory scheme. This scheme precluded the authorities from destroying the infringing goods unless they found it inappropriate to donate the goods to charities, sell them back to the rights holders, or auction them off after eradicating the infringing features.

In response to the U.S. claims, China pointed out that the sequence merely expressed “an official preference” for disposition methods. Under this flexible arrangement, China claimed, its customs authorities still had wide discretion to determine whether the stated criteria had been met. In fact, as the panel observed, there were “circumstances in which Customs departs from the terms of the measures.” The panel therefore found “the measures . . . not ‘as mandatory’ as they appear on their face.”

To the surprise of the United States, as well as many intellectual property rights holders, the WTO panel began by praising China for

providing “a level of protection *higher* than the minimum standard required” by the TRIPS Agreement. For example, China has extended border measures to all forms of infringement, not only to piracy and counterfeiting. Thanks to U.S. pressure in the early-to-mid-1990s, China has extended customs measures to both imported and exported goods. In fact, unlike those in other countries, the Chinese customs authorities have given “disproportionate weight to export monitoring.” “[While] most countries use Customs to protect themselves from the inflow of counterfeits . . . , China has used its Customs resources chiefly to protect *other* countries, by stopping the exportation of counterfeits.” It is understandable why Chinese officials were rather frustrated with this second claim. As Vice Premier Wu Yi declared: “The Chinese government is extremely dissatisfied about [the WTO dispute over TRIPS enforcement], but we will proactively respond according to the related WTO rules and see it through to the end.”

With respect to donations and sales to right holders, the WTO panel noted that Article 59 “do[es] not indicate that the authority to order the specified types of remedies must be exclusive.” While donations may help meet public welfare needs and are suitable to conditions in less developed countries, sales to rights holders can be justified by the fact that some rights holders may want to purchase unauthorized overruns that are qualitatively identical to the authorized manufactures. The panel even accepted the use of auctions to dispose of infringing goods. As it explained, because “the remedies specified in Article 59 are not exhaustive . . . , the fact that authority to order auction of infringing goods is not required is not in itself inconsistent with Article 59.”

Nevertheless, the panel faulted China for the way its customs authorities auctioned off the seized goods. As clearly stated in Article 46 of the TRIPS Agreement—the provision that provides the principles incorporated into Article 59: “[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.” Whether the removal is considered “simple” will depend on whether “the state of the goods is altered sufficiently to deter further infringement.”

Although China provided additional measures, such as the solicitation of comments from rights holders and the introduction of an expertly determined reserve price, those measures, in the panel’s view, did not “create an effective deterrent to infringement”—a key objective of Article 46. Likewise, even though a small amount of the seized goods—only 0.87 per cent by the number of shipments or 2.2 per cent by the value of infringing goods—are subject to auctions, the panel found that the provision was not “narrowly circumscribed” enough to be covered within the “exceptional cases” permissible under the TRIPS Agreement. As the panel noted further, “[e]ven when [the provision was] narrowly circumscribed,

application of the relevant provision must be rare, lest the so-called exception become the rule, or at least ordinary.”

In the end, China lost part of the second claim, even though the panel upheld as TRIPS-consistent the use of donations, sales to rights holders, and auctions. The panel also rejected the U.S. claim that customs actions in China were subject to “a compulsory sequence of steps” that violates the TRIPS Agreement.

C. *Copyright Protection for Censored Works*

The final claim in the dispute concerned the first sentence of Article 4 of the Chinese Copyright Law, which states that “[w]orks the publication and/or dissemination of which are prohibited by law shall not be protected by this Law.” By denying protection to banned works, China failed, the United States claimed, to offer protection to copyright holders as required by the Berne Convention, which was incorporated by reference into Article 9.1 the TRIPS Agreement. Article 5(1) of the Berne Convention states:

Authors shall enjoy, in respect of 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 by this Convention.

Article 5(2) further provides: “The enjoyment and the exercise of these rights shall not be subject to any formality; such enjoyment and such exercise shall be independent of the existence of protection in the country of origin of the work.” By denying copyright holders the immediate and automatic enjoyment of their rights, and by subjecting copyright to the formalities of a successful conclusion of content review, the Chinese Copyright Law therefore contravened the Berne Convention.

In addition to claims under the Berne Convention, the United States also raised arguments based on Article 41.1 of the TRIPS Agreement, which states:

Members shall ensure that enforcement procedures . . . 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.

According to the United States, the Chinese law did not provide any effective action against infringement of those copyrighted works that had not passed the content review process or that were awaiting the results of the review.

In response to the U.S. claims, China made a number of counter-arguments. First, China claimed that the first sentence of Article 4 of the Copyright Law was “extremely limited in scope.” Like other countries,

China bans from publication or dissemination works that consist entirely of unconstitutional or immoral content. With respect to works that had been edited to pass content review, however, the law protected “copyright in the edited version of the work, including against copies of the unedited version that infringed copyright in the edited, approved version.” It also protected works that had yet to be subject to content review or that were awaiting the results of the review. The law only failed to protect the “unedited, prohibited copies of an unedited, prohibited work that failed content review.”

In addition, China distinguished a denial of the authority to publish from a denial of copyright. Making a weak, and rather bizarre, distinction between “copyright” and “copyright protection,” China contended that Article 4 did not remove copyright, but denied the “particularized rights of private copyright enforcement.” According to China, authors would still have “access” to the enforcement process even if they did not have adequate evidence or a valid right to enforce.

China further insisted that Article 17 of the Berne Convention recognize a country’s sovereign right “to permit, to control, or to prohibit . . . the circulation, presentation, or exhibition of any work or production.” In China’s view, Article 17 partially codified a country’s “sovereign right to censor.” The provision therefore places limitations on all rights granted to authors under the Berne Convention. As China observed, Article 17 was “drafted using very expansive language ‘that effectively denies WTO jurisdiction in this area.’”

Finally, China pointed out that public regulations had pre-empted private economic rights. Because the copyright in banned works was considered a “legal and material nullity” after pre-emption, enforcement of such a right would be meaningless. China also stated that it “enforces prohibitions on content seriously, and . . . this removes banned content from the public domain more securely than would be possible through copyright enforcement.” Because the ban applies to both copyright holders and potential infringers, private enforcement is unnecessary. In China’s view, content regulation measures have already provided “an alternative form of enforcement against infringement,” thereby enabling China to meet the “effective action” obligation under Article 41.1 of the TRIPS Agreement.

Despite this long list of defenses and counterclaims advanced by China, the WTO panel found Article 4 of the Chinese Copyright Law to be inconsistent with the TRIPS Agreement. In particular, the panel rejected China’s distinction between copyright and copyright protection, pointing out that such a distinction would render copyright “no more than a phantom right.” The panel also noted that the enforcement procedures under Article 41.1 are “far more extensive” than mere access to the enforcement process. In addition, the panel noted that, even though China had made a policy choice to make available other enforcement procedures, such as content

regulation measures, that particular choice “d[id] not diminish the member’s obligation under Article 41.1 of the TRIPS Agreement.”

To the major disappointment of human rights advocates, the panel openly recognized a country’s sovereign right to prohibit the publication or distribution of those works. As the panel reasoned, “copyright and government censorship address different rights and interests.” While copyright protects private rights, government censorship addresses public interests. Censorship regulations, according to the panel, therefore cannot eliminate rights that are inherent in a copyrighted work. The panel also noted China’s failure to “explain why censorship interferes with copyright owners’ rights to prevent third parties from exploiting prohibited works.”

Throughout its report, the WTO panel seemed rather reluctant to take “judicial notice” of censorship in China, even though China’s efforts to ban immoral and politically-sensitive works are well-known and have been widely documented. Instead, the panel expected China to substantiate its assertion that rights holders will obtain greater protection through censorship regulations than copyright law. Likewise, it is amusing that the United States opted for the term “content regulation” in lieu of “censorship,” while China frankly admitted censorship within the country and pushed hard for the recognition of its “sovereign right to censor.” To some extent, the different word choice and posture suggest the very different views held by China and the United States over the appropriateness of using censorship to maintain public order and social stability.

Finally, in the interest of judicial economy, the panel did not address the claims under Article 5(2) of the Berne Convention and Article 61 of the TRIPS Agreement, the outcome of which, the panel claimed, is likely to be similar to those of the decided claims. Although the panel confirmed that its conclusion would not apply to works never submitted for or awaiting the results of content review in China as well as the unedited version of works for which an edited version has been approved for distribution, it recognized the “uncertainty” created by the potential denial in the absence of a determination by the censorship authorities. The United States therefore won the third claim decisively.

IV. LIMITATIONS OF THE WTO PANEL REPORT

Immediately following the release of the WTO panel report, both China and the United States quickly declared victory. As Acting USTR Peter Allgeier maintained:

These findings are an important victory, because they confirm the importance of IPR protection and enforcement, and clarify key enforcement provisions of the TRIPS Agreement Having achieved this significant legal ruling, we will engage

vigorously with China on appropriate corrective actions to ensure that US rights holders obtain the benefits of this decision.

The response by Yao Jian, the spokesperson of the Chinese Ministry of Commerce, by contrast, was more subdued. Although he “welcomed” the verdict on criminal thresholds, he expressed “regret” about the unfavorable aspects of the ruling and maintained that his government was “making a further assessment of the Dispute Settlement Body panel report.”

Given the fact that either party can interpret the outcome as a 2–1 victory, it is rather difficult to determine which statement is the more correct. Nevertheless, academic commentators seem to have aligned themselves with China’s evaluation. Michael Geist, for example, noted that “[t]he U.S. did not win this case, but rather lost badly.” Frederick Abbott added, “It was foreseeable that WTO dispute settlement would be a problematic way for the United States to accomplish the enforcement objectives its industry groups laid out. There is doubtless some value that everybody thought about TRIPS enforcement rules a bit.” Xue Hong noted further: “If the WTO rulings are substantially sided with the United States’ claims against China’s intellectual property enforcement, it is surprising that China is seemingly calm and quiet in such a serious situation.”

Although it is tempting to declare winners and losers in a legal dispute, and government spokespeople often use their best efforts to capture the bright side of even the most undesirable outcome, WTO panel reports do not lend themselves to victory proclamations. In fact, by “cutting the baby in half,” the WTO panel successfully avoided picking a winner and a loser in this dispute. It is therefore no surprise that neither the United States nor China appealed the report to the Appellate Body. This outcome serves as an interesting contrast to the outcome of the US-China market access dispute, which was quickly appealed by both parties.

In retrospect, the outcome of this dispute is actually not hard to predict, notwithstanding the many inherent ambiguities built into the TRIPS Agreement. A number of commentators have already gone on record to observe an even match between the two parties. At past academic events, I also noted that China would prevail on the criminal threshold claim, while the United States would win the formalities claim, with the second one being a toss-up, due to its fact-intensive nature.

While these predictions were not too far off, the importance of the WTO panel report is not in its conclusions, but rather in the reasoning behind those conclusions. For intellectual property rights holders, the most important question is not who wins or loses in the dispute, but whether the resolution of this dispute would lead to substantive improvements in intellectual property protection and enforcement in China. The answer, unfortunately, is mostly negative.

A. *Thresholds for Criminal Procedures and Penalties*

The first claim concerned thresholds for criminal procedures and penalties. Because the United States failed to provide sufficient evidence to substantiate this claim, the thresholds in the Chinese Criminal Law remain intact. To some extent, the panel report showed how complex Chinese criminal laws are. The various submissions and oral statements also suggested that the U.S. position might have been hurt by the perpetuation of Western stereotypes about the shortcomings of the Chinese legal system.

If one has to challenge Chinese law, it would be ill-advised to rest the challenge on the inadequate development of Chinese criminal law. Although China is still making progress toward a greater respect for the rule of law, its criminal system is exceedingly well-developed. Criminal law has always been considered “a prominent branch of law in the Chinese legal system.” If there is any inadequacy in the Chinese criminal system, the inadequacy is in a lack of procedural safeguards, problematic evidentiary standards, a lack of judicial independence, and local protectionism. Under-enforcement, however, is rarely an issue.

In fact, criminal law is one of the most established branches of law not only in China but throughout the world. According to *Shang Shu (The Book of Documents)*, “by about 2200 B.C. [during the Xia Dynasty], the words crime and penalty were [already] known in ancient China.” Dating back to at least a millennium before the time of Confucius, and close to four millennia before the establishment of the American Republic, penal law in China was so dominant that some commentators have wondered whether ancient Chinese law was mostly, and unduly, penal. Even in the intellectual property field, an area with which China had very limited experience, a criminal law provision (Article 127) appeared as early as the late 1970s—in the 1979 Criminal Law that was promulgated shortly after the Cultural Revolution and the country’s reopening to foreign trade.

Moreover, as William Alford reminded us, the problem with China is not a lack of laws, but the existence of too many. To some extent, the United States seems to have been overwhelmed by not only the sophistication and complexity of the Chinese criminal system, but also the regulatory maze and abundant laws that can be implicated by intellectual property crimes. As one U.S. trade official told me in frustration, it is really difficult to litigate over a set of “infinitely manipulable” laws. Whether the laws are infinitely manipulable or just highly complex, of course, is in the eye of the beholder!

If these challenges are not enough, it is important to remember that the United States had made a conscious and calculated choice not to push hard for criminal enforcement in China in the early 1990s. As Joseph Massey, the former Assistant USTR for Japan and China, recalled, the United States made a decision not to press for criminal penalties for intellectual property piracy in China in the early-to-mid-1990s because of

concern over political repression. Although many in the first Bush and Clinton administrations considered this approach appropriate and politically palatable, it has now backfired on the United States by making the enforcement problems more difficult to tackle. To some extent, it may now be just too late for the United States to fight a battle that it intentionally gave up two decades ago.

Although the above discussion explained why the United States lost the first claim, and arguably also its most important claim, it is worth using counterfactual reasoning to explore whether rights holders would have received stronger intellectual property protection had the United States prevailed. After all, the intellectual property industries continue to insist that they could have won the claim, because there was sufficient evidence to show China's non-compliance in the criminal enforcement area.

The answer to this particular question, unfortunately, is "it depends." Ultimately, that answer depends on whether criminal enforcement will provide a more effective deterrent than administrative enforcement. In China, administrative enforcement can be more effective than criminal enforcement under certain circumstances and outside Beijing, Shanghai, Guangzhou, and other major cities. Administrative enforcement is also cheaper, quicker, more flexible, and less antagonistic. Many rights holders, indeed, have found this form of enforcement effective in addressing the piracy and counterfeiting problems in China.

By comparison, judicial enforcement protects rights holders from corruption and local protectionism. It also allows for damage compensation and pre-litigation remedies. With the introduction since the 1990s of specialized courts with judges possessing intellectual property expertise, courts in major cities have greatly improved. As a result, rights holders in these cities have increasingly resorted to the use of courts. In short, administrative enforcement has both strengths and weaknesses, and there is no "one size fits all" solution for rights holders doing business in China.

Moreover, the presence of a parallel enforcement system may suggest limited improvements even if China has been found to have failed to provide the required criminal measures. Article 61 of the TRIPS Agreement explicitly demands criminal enforcement. However, it does not define what measures would constitute criminal for the purposes of the Agreement. Nor did the Agreement's drafters intend the obligation to encroach on each WTO member's ability to design its domestic criminal system. Thus, if the criminal thresholds were found to be inconsistent with the TRIPS Agreement, China could arguably re-label its administrative measures criminal or incorporate those measures into the Criminal Law. As Brazil rightly recognized in its third party submission, "[i]t seems to be overly formalistic to assume that because a domestic legal system qualifies monetary fines as administrative penalties, the core substantive issue of the deterrence capability of the remedy should be put aside."

Determining what is considered criminal for the purposes of the TRIPS Agreement is, indeed, rather difficult. Such a determination is also highly political—a task that WTO panels would prefer not to undertake, especially in view of its primary objective of resolving trade disputes. Different countries subscribe to different concepts, values, cultural and historical traditions, and underlying philosophies. Except for such heinous crimes as murder, what is criminal in one country may not be so in another.

Moreover, China has established a longstanding penal law tradition, even though it did not have a Western-style criminal law system until the arrival of Westerners and their gunboats. The differences between the Chinese and Western criminal law systems—in particular, the Chinese insistence on “guilty until proven innocent” and “a life for a life”—in fact, was a major cause of the Opium War in the mid-nineteenth century. One therefore could aggressively debate whether some forms of administrative or penal enforcement could be classified as criminal for the purposes of the TRIPS Agreement.

To be certain, criminal enforcement may require something to be done by “procedures initiated by or on behalf of the state to punish offences against the common well-being”—a definition Australia advanced in its third party submission. However, *ex officio* administrative enforcement—including the so-called administrative detention, which is widely used in China—arguably could satisfy this definition. Fortunately for the panel, neither the United States nor China argued whether administrative enforcement measures in China could satisfy Article 61 of the TRIPS Agreement. The issue was, therefore, left for another day. Had China pushed harder on this particular issue, it would, indeed, be interesting to see how the panel would rule.

Finally, it is interesting to find the United States taking a strong position on criminal enforcement when U.S. rights holders—most notably the music and movie industries—have increasingly lobbied for the use of administrative mechanisms, as either a substitute or institutional enhancement. As these industries have repeatedly noted in the context of internet file-sharing, criminal penalties are slow, intrusive, and highly unpopular. In the United States, for example, the unpopular lawsuits the music industry has filed against individual file-sharers have threatened to make the industry “the most hated industry since the tobacco industry.” From the U.S. standpoint, a more preferable approach, therefore, is to develop a more streamlined administrative process or to facilitate cooperation between rights holders and internet service providers. Because the TRIPS Agreement was drafted with limited anticipation of developments in the digital environment, a blind push for reforms based on provisions that were drafted in the early 1990s—such as those in the TRIPS Agreement—may ultimately undermine the rights holders’ interests, especially in an age of rapidly-changing technological and business conditions.

B. *Disposal of Infringing Goods*

The second claim concerned the disposal of infringing goods seized at the border. On its face, the panel's determination on the failure of the Chinese customs authorities to properly handle seized goods in their auctions has greatly strengthened protection for intellectual property rights holders. In reality, however, the ruling has only minimal impact on U.S. intellectual property interests.

Of all the goods seized at the border, the Chinese customs authorities have already destroyed "over half of [these goods]" when measured against the value of all seized goods. "[T]he number of shipments destroyed far exceeds the number of shipments auctioned, and . . . in three years Customs has only decided to auction goods twelve times." Moreover, as the panel acknowledged, the present panel report covers only imports, which represented a mere 0.15 per cent by value of the infringing goods disposed of or destroyed in China between 2005 and 2007. Even more problematically, although the use of auctions constituted a mere two per cent of all disposition outcomes, *none* of the confiscated imports were auctioned off. As far as effective intellectual property enforcement goes, one therefore has to wonder how China could improve on zero.

In early 2010, China amended its customs regulations in an effort to comply with the panel report. The amended Article 27 states that "the customs may lawfully auction them after the infringement features have been eliminated, *but for imported goods with counterfeited trademarks, except for special circumstances, such goods shall not be permitted to be traded only by clearing off the trademarks.*" As indicated in italics, the new language was taken directly from Article 46 of the TRIPS Agreement (with translation into Chinese and then back to English for this translated version).

From the legislative standpoint, the direct transcription of the TRIPS language into local regulations is rather interesting. Taken verbatim from the "A" text proposed by Western countries during the TRIPS negotiations, the language in Article 46 differs significantly from the language used in other parts of the Chinese Customs Regulations. While the TRIPS Agreement and the panel report do not dictate how laws are to be drafted, China eventually transcribed the TRIPS language for two reasons. First, the use of such language protects China from future compliance challenges before the WTO with respect to that particular provision. The amendment therefore puts an end to the present dispute over the inconsistencies between the Chinese Customs Regulations and the TRIPS Agreement. Second, the adopted language shows the country's good faith effort in bringing its laws into conformity with the TRIPS Agreement. It sends a strong signal to the international community that China takes its intellectual property obligations seriously. It also allows the country to earn goodwill despite its continuous struggle to improve intellectual property protection.

From the enforcement standpoint, however, the transcribed language has raised some implementation challenges. Whether the adopted language will provide effective protection to rights holders will depend on how effective this language is implemented by the Chinese authorities and whether those authorities can fully internalize the underlying values based on language that may be foreign to them and that may not have a standard interpretation in the Chinese legal or regulatory system.

Equally disturbing in the second claim is the United States' eagerness to challenge what it has called the "compulsory sequence of steps" in Chinese customs procedures. While providing discretion is not *per se* bad, and the insistence on discretion is symbolically powerful when linked to the larger U.S. freedom agenda, firms and business people in China—both local and foreign—have repeatedly complained about the problems of corruption and local protectionism in China. As Daniel Chow noted, local protectionism remains "widespread and poses probably the single most significant problem in enforcement against counterfeiting." The more discretion there is, the more likely local protectionism and corruption will occur.

After all, the Chinese proverb "the mountains are high, and the Emperor is far away" (*shān gāo huángdì yuǎn*) remains fairly accurate as far as intellectual property enforcement goes. That proverb is illustrated well by the experience of a senior USTR official who visited the Guangdong province shortly after the signing of the 1992 memorandum of understanding between China and the United States. As Joseph Massey recounted, that official "was [literally] told by a senior provincial government leader that 'Beijing's agreement' with the US was '*mei you guanxi*' (irrelevant) in that southern province."

In fact, with the current central-local dynamics in China and the ongoing heavy decentralization of the central government, measures that curtail local discretion might be in the interest of rights holders, even if these measures sound draconian by U.S. standards. Today, most government agencies, including the National Copyright Administration and the Administration for Industry and Commerce, have become either partially or fully decentralized. Because the General Administration of Customs is one of the two rare government agencies involved in intellectual property enforcement that still have a centralized bureaucratic structure, it may provide a plausible solution to China's decentralization problems. Had the United States succeeded in introducing more discretion in customs at both the local and provincial levels, it might have hurt rights holders without even realizing the potential harm.

If these criticisms are not enough, it is rather odd for the United States to claim that Chinese law is rigid—a non-starter for most Chinese law experts. While the application of Chinese law is sometimes rigid, due to both a civil law tradition and the legacy of a tightly controlled command economy,

Chinese law has been known for its flexibility. For example, discretion and informality have been built into the Chinese legal system. Because of rapidly-changing socio-economic conditions, legislation is often issued “on an interim or trial use basis” in China. Many foreign business people and commentators, indeed, have found Chinese law too malleable to be fair and effective. Thus, for China observers, it is rather odd for the United States to advance the claim that Chinese law is inflexible—a claim that does not match well with the actual reality of the Chinese legal system.

Moreover, if the United States and its supportive rights holders want to make sure that the Chinese customs authorities are obligated under the TRIPS Agreement to destroy the seized goods, asking for more discretion seems to defeat its intended purpose. As Brazil rightly recognized in its third party submission:

[T]he United States’ arguments with regard to [the “authority to destroy”] 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.

Until the United States can reconcile the paradoxical nature of this claim, it is unlikely to make a successful claim before the WTO that will result in more destruction of infringing goods seized at the border.

C. *Copyright Protection for Censored Works*

The final claim concerned copyright protection for censored works. From the beginning, most commentators agreed that the United States would prevail in that claim. Many Chinese commentators have also acknowledged the provision’s redundancy, raising questions about the actual importance of the claim.

To a large extent, Article 4 was included as a political compromise in light of concerns over information control and the strong political leverage of the public security bureaucracy. In the early 1990s, the introduction of copyright law was one of the key conditions for the renewal of the U.S.–China Bilateral Trade Agreement. China, at that time, had yet to join the WTO. Notwithstanding the Chinese leaders’ wish to earn U.S. support in its entry to the WTO, introducing the Copyright Law was rather challenging in a highly politically-charged environment following the 1989 student protests in Tiananmen Square. Many conservative hardliners, understandably, were concerned about how the new statute would affect information control, not to mention the fact that the law would benefit mostly the intelligentsia, a large portion of which these hardliners “eyed with the most suspicion.” In the end, Article 4 was added to provide the needed compromise.

On February 26, 2010, exactly 15 years after the signing of the 1995 Agreement Regarding Intellectual Property Rights with the United States, China amended Article 4 of the Copyright Law to bring the law into conformity with the TRIPS Agreement. Because the first sentence was found to be inconsistent with the TRIPS Agreement, it was removed. The second sentence, which stated that “[c]opyright owners, in exercising their copyright, shall not violate the Constitution or laws or prejudice the public interests,” became the first sentence of Article 4. This sentence is then followed by a new sentence, which stipulates: “The publication and dissemination of works shall be subject to the administration and supervision of the state.” To many commentators, the effect of the law remains the same, even though the first sentence in the original provision has now been deleted, a new sentence was added to replace the deleted sentence, and copyright holders technically will have protection for works that cannot be published or disseminated. In short, the United States’ victory seems to be rather symbolic, if not academic.

To begin with, the problematic sentence in Article 4 has never been used in any previous case, not to mention the acknowledgement by many Chinese scholars that the provision was redundant. The impact of the success in this claim on intellectual property rights holders, therefore, is likely to be minimal. Even more problematic, by asserting this claim, the United States has forced the WTO panel to openly admit that countries are free to censor content. While it is good, from the United States’ standpoint, to have the WTO panel finding against China in a TRIPS-related dispute, it is rather unfortunate to have the WTO panel openly recognize a country’s power to censor. It is one thing to be aware of this unpleasant reality, but another thing to have the WTO formally and openly recognize a WTO member’s right to censor. Indeed, a growing number of commentators have lamented how the U.S. foreign policy at times has misjudged its priorities by placing economic interests above free speech interests. The panel report also sends a misguided signal to other countries that continue to heavily restrict the free flow of information. As Professor Gervais observed, “even if the report will have a limited legislative impact in China, it . . . may influence the course of events in other countries—for example in the Persian Gulf—that have censorship systems that include a denial of copyright protection.”

Even worse, within China, the panel report has provided fodder for the conservative factions within the Chinese leadership to push for not only stronger censorship controls, but more resources and power in the enforcement area. After all, it bears no reminder that provincial copyright authorities are often subordinated to the Press and Publications Administration, the agency in charge of propaganda and information control. To some extent, the panel report provided an unintended opportunity for the public security bureaucracy to demand greater power and resources as a compromise for supporting a semantic change in the Copyright Law. From the human rights standpoint, the claim on Article 4 was short-sighted; it led

to serious adverse consequences for the democratic reforms China has made over the past two decades.

Moreover, it is rather ironic that the United States argued on the Berne Convention claims with such conviction and self-righteousness when the country itself had refused to join this important international copyright treaty for more than a century. This point is certainly not lost on those less developed countries that have joined the Berne Convention before the United States. This point also resonates well with those in the United Kingdom, France, Canada and other countries that have repeatedly complained about losses caused by the United States' failure to protect copyrighted works of foreign authors. Many countries, in fact, still question whether the United States is in full compliance with the Berne Convention in light of its limited protection of moral rights.

It is equally ironic that the United States pushed for stronger protection of performers' rights under Article 14 of the TRIPS Agreement, given the country's limited protection for audiovisual performers and its refusal to join the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (commonly known as the Rome Convention). It is also troubling that the United States seemed to have forgotten its past history of denying protection to obscene or immoral works, which China was quick to remind the panel. Until an appellate court rejected the obscenity defense to copyright infringement in *Mitchell Brothers Film Group v. Cinema Adult Theater* in 1979, "copyright protection was effectively unavailable for pornography, though it was unambiguously available for other photographic and audiovisual works."

To some extent, the present WTO dispute reminds one of how much the U.S. position has changed in its run-up to joining the Berne Convention and its growing active role in shaping the international intellectual property regime. It therefore underscores the need for countries, in particular those in the less developed world, to calibrate their intellectual property system based on local needs, interests, and conditions. To be certain, it seems hypocritical for the United States to assume the position of the world's champion of the Berne Convention when it has refused to join the Convention for most of its life. As the late Barbara Ringer, the former U.S. Register of Copyrights, reminded us:

Until the Second World War the United States had little reason to take pride in its international copyright relations; in fact, it had a great deal to be ashamed of. With few exceptions its role in international copyright was marked by intellectual short-sightedness, political isolationism, and narrow economic self-interest.

More importantly, however, the dispute shows vividly the dynamic nature of changes in the international intellectual property system, the failure of the "one size fits all" model, and the need for individualized paths for each

WTO member. It also raises questions concerning the attempts made by the United States—and, for that matter, other developed countries—to “kick[] away the ladder” that will help less developed countries succeed.

V. LESSONS AND BENEFITS

The foregoing section has shown that the United States’ WTO challenge against China was rather misguided, especially when viewed from the standpoint of U.S. rights holders and in light of the country’s longstanding interests in promoting human rights, civil liberties, and the rule of law. Not only does this challenge fail to provide sustained improvements in the area of intellectual property protection and enforcement, it also signals to other less developed countries that the TRIPS Agreement does not require the high TRIPS-plus standards of intellectual property protection and enforcement that are now being advanced through bilateral, plurilateral, and regional trade and investment agreements as well as the proposed ACTA. Nevertheless, the panel report has some “silver linings.”

A. United States

First, through the present dispute, the United States sent a strong signal to China about its willingness to use the WTO process to resolve disputes. This signal, in turn, may lead to further negotiations both within and without the intellectual property arena. To some extent, it is important not to look at the WTO process in clinical isolation from other strategies deployed by the U.S. administration. The WTO process is part and parcel of a larger American intellectual property policy toward China, which includes meetings with the JCCT and the newly-established U.S.–China Strategic and Economic Dialogue.

When viewed as an integrated approach to improving intellectual property protection and market access for intellectual property-based goods and services, the resolution of the dispute has helped advance bilateral discussions, even though some of these discussions and other cooperative efforts undoubtedly have been frozen during the WTO process. Part of the original intent of the WTO complaint was to bring pressure to bear on China, with the hope that some of the issues—whether specified in the complaint or elsewhere—will be resolved, with or without reaching the final stage of the WTO process.

Second, through the WTO process, the United States has learned a great deal about China’s legal reasoning and WTO strategies. The panel report also reveals how the WTO panels will evaluate China’s unique legal structure and measures (such as those judicial interpretations that have normative effects). This information is useful for not only the U.S. administration, but also American rights holders.

After all, given the immense volume of trade between China and the United States, both countries are likely to use the WTO process frequently as a means to resolve trade disputes. Since filing complaints over intellectual property enforcement and market access of cultural and entertainment products, the United States has filed additional complaints against China in the areas of financial information services, grants and loans, and exportation of raw materials. In return, China has also launched WTO challenges against the United States in the areas of anti-dumping and countervailing duties, and poultry and tire imports. Out of the seven complaints China filed with the WTO, five of them were against the United States.

Third, through the various submissions and oral statements, the United States and its rights holders successfully obtained on record detailed information about how censorship regulations, customs procedures, and criminal thresholds operate in China. For example, they now understand that “[w]here no authorized edited version had been created, [China] would enforce copyright in the legal portion of the original work against copies of an unauthorized edited version.” They also learn the complex ways that the Chinese authorities calculate criminal thresholds and the fact that they count as “evidence of preparation and attempt” those inchoate goods and implements used to manufacture pirated or counterfeit goods. They even found new information of which they were not fully aware, such as the Law on Donations for Public Welfare. All of this information will be very useful in the future to protect the interests of rights holders. To some extent, this panel report produces information that the United States worked hard but failed to obtain through an earlier request under Article 63.3 of the TRIPS Agreement.

Finally, the report may provide the momentum needed to push at the international level for greater improvements in intellectual property protection and enforcement in China. As a dispute of first impression before the DSB, this panel report will pave the way for future WTO challenges in the area of intellectual property enforcement against both China and other countries. At the very least, the report signals to other WTO members the United States’ willingness to push hard on intellectual property enforcement issues through the WTO process.

Even if the USTR is reluctant to initiate another WTO challenge on intellectual property enforcement in the near future, the report will help rally developed, emerging, and other like-minded countries to set a higher benchmark for intellectual property enforcement. A good example is the recent demands for a redefinition of the term “commercial scale” through bilateral or plurilateral trade and investment agreements as well as the proposed ACTA—a point China raised in the dispute. By underscoring how the TRIPS Agreement has failed to address exported, in-transit, and re-exported goods, the United States, despite losing part of the claims on customs measures, may be able to use this panel report to its advantage to

create a sense of urgency among its trading partners for strengthening intellectual property enforcement norms. As Henning Grosse Ruse-Khan insightfully observed, the panel’s clarifications on the limited scope of the TRIPS Agreement have hinted at the “rationale for several TRIPS-plus initiatives in the field of border measures.”

B. *China*

The panel report enables China to understand better its TRIPS obligations through the eyes of a neutral third party. It provides both certainty and clarity to the country’s TRIPS-related obligations. More importantly, the report provides the reformist factions within the Chinese leadership with an important push for stronger reforms within the country. In China, the reformists are constantly challenged by their more conservative counterparts, who are uncomfortable with the country’s rapid socio-economic changes and the resulting social ills. By providing the much-needed external push that helps reduce resistance from conservative leaders, the panel report, therefore, has helped accelerate reforms in the area of intellectual property protection and enforcement.

In addition, China’s participation in the WTO process has helped the country raise what I have called the “WTO game.” In addition to human resources, litigation capital, and legal capacities, a successful player will need more finely-honed skills and a deeper knowledge of the different facets of this game. The more a country plays the WTO game, the more familiar and better it will become. To date, China has relied substantially on outside counsels to provide submissions to the DSB. However, it is imperative that China can eventually play the game better with its own players. Learning how to play this game well, indeed, has become increasingly important. The present dispute is likely to be the first of a long series of intellectual property-related challenges the United States will initiate against China in the near future. Any experience China earns in the intellectual property area can also spill over into other areas covered by the various WTO agreements.

Moreover, as this dispute has shown, many of the claims China needs to make require both mastery of Chinese law and a deeper understanding of the local conditions and cultural contexts. It is simply difficult for foreign counsels to get up-to-speed on all the nuances and complexities in Chinese law. It is even more difficult to get them to master the fine legal and administrative details in areas outside of intellectual property and international trade—in this case, criminal law, customs procedures, and censorship regulations. In fact, some of the underlying concepts, values, and concerns in these laws may sound counterintuitive to counsels that were educated or trained abroad.

Finally, the gains in the panel report will put China in a better bargaining position in its ongoing intellectual property-related negotiations with the United States. As Gregory Shaffer reminded us:

Participation in WTO political and judicial processes are complementary. The shadow of WTO judicial processes shape bilateral negotiations, just as political processes and contexts inform judicial decisions. If developing countries can clarify their public goods priorities and coordinate their strategies, then they will more effectively advance their interests in bargaining conducted in WTO law's shadow, and in WTO legal complaints heard in the shadow of bargaining. They, in turn, will be better prepared to exploit the "flexibilities" of the TRIPS Agreement, tailoring their intellectual property laws accordingly, and will gain confidence in their ability to ward off US and EC threats against their policy choices. In other words, developing countries' international legal strategies have implications for their leverage in international political negotiations and for the policy space in which they implement domestic intellectual property and public health regimes.

In the shadow of this panel report, and the gains it has made in the criminal enforcement area, China will now have a better negotiating position vis-à-vis the United States in future bilateral negotiations. If China chooses to assert its newfound leverage at the multilateral level, the report may even help shape laws in the international intellectual property system. This panel report, therefore, may have serious implications not only for China and the United States, but also for other WTO members.

C. Other Less Developed Countries

Although the panel report covers only the dispute between China and the United States and technically has no precedential value for disputes involving other less developed countries, the report benefits the developing and least developed countries in a number of ways.

First, the report underscores the importance of minimum standards. Mentioning the term "minimum standard" or its plural form 14 times, the WTO panel reminded us that the TRIPS Agreement is primarily a minimum standards agreement. In so doing, the panel report recognizes the flexibilities retained in the TRIPS Agreement and explicitly affirmed in paragraph 5 of the Doha Declaration on the TRIPS Agreement and Public Health. The report also underscores the autonomy and policy space reserved for less developed countries during the TRIPS negotiations. Particularly notable in this report is the panel's meticulous effort in discerning China's obligations in the criminal enforcement area and its willingness to openly "acknowledge[] the sensitive nature of criminal matters and attendant concerns regarding sovereignty."

Second, the panel reminded us that “intellectual property rights are private rights,” a key principle that is explicitly stated in the preamble of the TRIPS Agreement. The panel also made it clear that “the phrase ‘shall have the authority’ does not require Members to take any action in the absence of an application or request.” Taken together, the report underscores the individual responsibility of intellectual property rights holders in protecting their own intellectual assets. Mindful of Article 41.5 of the TRIPS Agreement, the panel indicated its willingness to explore the unfairness of shifting the burden and risks of protection to governments in less developed countries—a warning that is worth taking into account with respect to the highly controversial ACTA.

Third, the panel carefully rejected the use of recently-negotiated bilateral, plurilateral, and regional trade and investment agreements as a relevant subsequent practice for determining the term “commercial scale.” Although China advanced the Australia–United States Free Trade Agreement as an indication of how the current U.S. definition of “commercial scale” has yet to be adopted at the time of the TRIPS negotiations, the WTO panel rejected the use of such a document, taking note of the interpretive rules laid out in the Vienna Convention on the Law of Treaties. Because U.S. free trade agreements are negotiated on a bilateral or plurilateral basis and China is not a member to any of these agreements, the documents would not constitute subsequent practice within the meaning of the Vienna Convention. While the panel rejected China’s argument that it should consider those agreements to determine the meaning of the term “commercial scale” at the time of the TRIPS negotiations, the outcome actually benefited not only China, but also other less developed countries.

Fourth, the panel was willing to look to local conditions to determine the term “commercial scale.” Even better, the panel demanded substantive evidence and found it insufficient to rely on mere anecdotal evidence, such as allegations in press articles or highly aggregated data in consultant and industry reports. By focusing on the need to appreciate local conditions and by taking an evidence-based approach, the panel report helps slow down the ongoing push for “one size fits all”—or, more precisely, “super size fits all”—standards through the TRIPS Agreement and other international agreements.

Finally, the report gives hope to less developed countries, which have become more frequent users of the WTO dispute settlement process in recent years. It is important to remember that the present dispute is only the second on the TRIPS Agreement involving a developing country that has resulted in the release of a WTO panel report. In the first dispute, the United States and later the European Communities successfully challenged, through parallel proceedings, the failure by India to establish a mailbox system in its patent law pursuant to Article 70.8 of the TRIPS Agreement. The result was a clear-cut victory for the United States and the European Communities.

In this second dispute, however, the result is mixed. Even in an area where developed countries have historically dominated, such as intellectual property protection and enforcement, developing countries are now doing much better in the dispute settlement process than they did in the early days of the TRIPS Agreement. The benefits of the WTO dispute settlement process, indeed, have begun to trickle down to less developed countries.

Given the potential of this panel report to benefit these countries, it is rather disappointing that less developed countries—with the exception of Argentina, Brazil, Mexico, and Thailand—did not participate in the process more actively and used third party submissions to provide a louder voice for the less developed world. To some extent, the lack of participation by less developed countries represents a lost opportunity, especially when viewed in light of their growing success in establishing development agendas at the WTO, WIPO, and other international fora.

D. *Intellectual Property Rights Holders*

In addition to the United States, China, and other WTO members, the panel report has provided intellectual property rights holders with many valuable lessons. First, enforcement is controversial at both the domestic and international levels. It is no coincidence that a comprehensive set of minimum international enforcement standards were not introduced into any multilateral agreement until the signing of the TRIPS Agreement. Although the United States, pushed by Levis Strauss, sought to introduce an anti-counterfeiting code toward the end of the Tokyo Round of Trade Negotiations, the proposal eventually failed. Even during the TRIPS negotiations, the enforcement issue was so controversial that developing countries demanded the inclusion of Article 41.5 in the TRIPS Agreement. Until recently, less developed countries have remained reluctant to explore stronger enforcement standards at both the WTO and WIPO.

To some extent, many of these countries are still dealing with what Bernard Hoekman and Petros Mavroidis have described as the “Uruguay Round ‘hangover’”—or more precisely, TRIPS veisalgia. On the one hand, these countries are concerned about the already high standards required by the TRIPS Agreement with which they had great difficulty in complying following the expiration of the transitional periods. On the other hand, they are also very concerned about the growing TRIPS-plus obligations developed countries have imposed upon them through new bilateral, plurilateral, and regional trade and investment agreements. Greater enforcement in excess of the TRIPS Agreement was a concern China and India recently raised in the TRIPS Council.

Moreover, stronger intellectual property enforcement cannot be developed from intellectual property laws alone. It requires the development of what I have called “an enabling environment for effective intellectual

property protection.” Such an environment includes such key preconditions for successful intellectual property reforms as a consciousness of legal rights, a respect for the rule of law, an effective and independent judiciary, a well-functioning innovation and competition system, sufficiently-developed basic infrastructure, established business practices, and a critical mass of local stakeholders.

As Robert Sherwood reminded us in an aptly titled article, *Some Things Cannot Be Legislated*, “until judicial systems in developing and transition countries are upgraded, it will matter little what intellectual property laws and treaties provide.” Likewise, Keith Maskus, Sean Dougherty, and Andrew Mertha wrote:

Upgrading protection for IPRs alone is a necessary but not sufficient condition for the purpose [of maximizing the competitive gains from additional innovation and technology acquisition over time, with particular emphasis on raising innovative activity by domestic entrepreneurs and enterprises]. Rather, the system needs to be strengthened within a comprehensive and coherent set of policy initiatives that optimize the effectiveness of IPRs. Among such initiatives are further structural reform of enterprises, trade and investment liberalization, promotion of financial and innovation systems to commercialize new technologies, expansion of educational opportunities to build human capital for absorbing and developing technology, and specification of rules for maintaining effective competition in Chinese markets.

To some extent, enforcement facilitation—that is, the provision of measures to help facilitate enforcement—is just as important as enforcement. While countries have explored the need for greater trade facilitation to support trade, they have yet to fully appreciate the importance of enforcement facilitation. Nor have they the political will to push for measures to make such facilitation possible.

Fortunately, the need for such an “enabling environment” has begun to receive greater attention in the international policy arena. The November 2009 session of the WIPO Advisory Committee on Enforcement, for example, underscored the need to “[i]dentify[] elements for creating an enabling environment for promoting respect for intellectual property in a sustainable manner and future work.” As noted in Pakistan’s submission to the advisory committee, entitled “Creating an Enabling Environment to Build Respect for IP”:

[A] very limited approach to combating infringement of IP rights, in which, in essence, stricter laws and capacity building of enforcement agencies is seen as the primary means to ensure enforcement . . . can temporarily reduce IPR infringements levels, but cannot address the challenge in a sustainable manner. A broader strategy is urgently needed to allow the

establishment of conditions in which all countries would have shared understanding of the socio-economic implications of enforcement measures, and direct economic interest in taking such measures. In such an environment, countries' choice to enforce IPRs will be derived from their internal rather than external factors.

Likewise, Brazil pointed out in its paper: "Violations of intellectual property rights do not take place in the void. They are not disconnected from concrete political and social variables." That paper also heavily criticized the "one size fits all" model of intellectual property enforcement while at the same time calling for a change in the committee's focus from enforcement of intellectual property rights to respect for intellectual property itself.

Third, the WTO dispute settlement process has its limits. Although U.S. industries have high hopes for this mandatory process to provide the much-needed antidote to the decades-old piracy and counterfeiting problems in China, WTO panel reports are lengthy, complex, and detailed. As noted earlier, each party in the dispute is likely to score some important points, regardless of whether it has an overall win or loss in the dispute. A better and more reliable solution, therefore, seems to be one that focuses on the bottom-up developments in the country while facilitating greater collaboration between U.S. industries and Chinese stakeholders. After all, as Professor Dimitrov has shown recently, while "enforcement volume is sensitive to both domestic and foreign pressure, . . . domestic considerations have a primary impact on the overall volume of enforcement."

Finally, intellectual property rights holders need to be proactive if intellectual property protection in China is to be strengthened. There is only so much a government can do on behalf of private rights holders. For all the complaints they have made about a lack of intellectual property protection and enforcement in China, the USTR obtained only thirty-four submissions pursuant to its initial request for comments on China's compliance with WTO commitments. It is no wonder that the United States was unable to muster up sufficient evidence to challenge the thresholds for criminal procedures and penalties in China.

Likewise, it is not uncommon to find intellectual property rights holders failing to make pro-active effort to protect intellectual assets. Researchers from McKinsey & Company, for example, have found that many executives in the Chinese operations of multinational companies in intellectual property-sensitive industries "think of protecting IP solely in legal terms—and sometimes only after property has been stolen." Experienced attorneys in China have also been troubled by the limited budget foreign businesses have allocated to intellectual property enforcement in the country. As Catherine Sun, a leading intellectual property attorney in China, noted in frustration, "in the U.S., companies spend millions of dollars in

patent litigation. But, they are not willing to allocate adequate budgets to China IP enforcement, instead hoping miracles will occur.”

VI. CONCLUSION

Although the WTO dispute settlement process provided the United States and other countries with a new weapon to induce China to offer stronger intellectual property protection, it has significant limitations. This paper discusses not only the limitations of the WTO process, but also the flaws in the United States’ challenge against China. It also examines the potentially limited impact of the WTO panel report.

To better understand the flaws in the United States’ WTO strategies, it may be worthwhile to compare the outcome of the present dispute with that of the market access dispute. Released in August 2009, more than six months after the release of the panel report on TRIPS enforcement, the later panel report successfully paves the way for opening up the Chinese market for publications, sound recordings, and audiovisual entertainment products. Although China filed an appeal on the report, the WTO Appellate Body affirmed most of it.

Taken together, the findings of the WTO panel and the Appellate Body in the market access dispute provide not only hope for intellectual property rights holders in the publishing and entertainment industries, but also additional lessons on how to strengthen protection for intellectual property interests in China. While intellectual property protection and enforcement remain inadequate in China, strengthening such protection and enforcement is not always the most urgent for intellectual property rights holders. If the ultimate objective of the WTO challenge is to increase market access—as is often the case in U.S.–China intellectual property negotiations—it may be more advisable to push China harder on fulfilling the market access commitments it has made in the run-up to the WTO accession.

The fact that policymakers—and for that matter, commentators—find it ill-advised for the United States to launch a WTO challenge against China on intellectual property enforcement grounds does not mean that these same people will find objectionable a challenge on market access grounds. Indeed, it is not unusual to find both Chinese policymakers and commentators bitterly divided over these two sets of issues. Within the country, there are always bureaucratic rivalries, institutional fragmentation, raging turf wars, ideological disagreements, and differences in policy preferences. Thus, even though both intellectual property and market access issues go hand in hand and are equally important to intellectual property rights holders, it may not be a good strategy to lump the two sets of issues together—or worse, mask the market access issues as TRIPS violations.

In the past few years, the United States has devoted a considerable amount of time, effort, and resources on the TRIPS enforcement dispute.

Sadly, despite all of these efforts, the WTO panel report did not result in any meaningful change in the Chinese intellectual property landscape. Although both the Copyright Law and Customs Regulations have been recently amended, these amendments are unlikely to provide intellectual property rights holders with stronger protection and enforcement.

If intellectual property protection and enforcement in China are to be dramatically improved, the United States needs to rethink its strategies for using the WTO dispute settlement process against China. It also has to take greater account of the local conditions and internal challenges that continue to hamper intellectual property reforms in China. Until new enforcement strategies are developed to target these local impediments, intellectual property rights holders are unlikely to obtain better protection and enforcement no matter how many WTO complaints are filed.

ABOUT THE CENTER

The Intellectual Property Law Center at Drake University Law School was founded in fall 2007 to promote global, interdisciplinary understanding of intellectual property law and policy. The Center was established with the generous support of a \$1.5 million gift from Wayne (“72) and Donna Kern of Dallas, Texas, which endowed the Kern Family Chair in Intellectual Property Law, and a \$750,000 leadership commitment from Pioneer Hi-Bred International Inc., a subsidiary of DuPont. In the past two years, the *U.S. News and World Reports* has ranked the center consistently among the top 25 intellectual property law programs in the United States.

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