

TRIPS Jurisprudence

Class 5

Dispute resolution

- Dispute settlement Art 64
- Dispute Settlement Understanding (DSU),
Annex 2

WTO IPR Disputes

US v India (pharmaceutical patents) 1997

US v Canada (term of patent protection) 2000

EC v US (copyright protection) 2000

EC v US (compulsory acquisition of trademark) 2002

US and Australia v EU (geographical indications) 2006

US v China (copyright enforcement) 2007

Ukraine v Australia (trademarks) 2012

EU v. US — Section 110(5) Copyright Act DISPUTE DS160

26 Jan. 1999, EC requested consultations with the US on s.110(5) of the US Copyright Act, as amended by the Fairness in Music Licensing Act, enacted on 27 Oct.1998.

The EC contended that s.110(5) permitted the playing of radio and television music in public places (bars, shops, restaurants, etc.) without the payment of a royalty fee. This was inconsistent with US obligations under Art. 9(1) of TRIPS which requires Members to comply with Articles 1-21 of the Berne Convention.

Section 110(5) of the US Copyright Act

- The “business” exemption, provided for s.110(5) (B), allows the amplification of music broadcasts, without an authorization and a payment of a fee, by food service and drinking establishments and by retail establishments, provided that their size does not exceed a certain square footage limit.

Section 110(5) of the US Copyright Act

- The so-called “homestyle” exemption, provided for in sub-paragraph (A) of Section 110(5), allows small restaurants and retail outlets to amplify music broadcasts without an authorization of the right holders and without the payment of a fee, provided that they use only homestyle equipment (i.e. equipment of a kind commonly used in private homes).

DISPUTE DS160

- On 15 April 1999, the EC requested the establishment of a panel.
- Brazil, Australia, Canada, Japan and Switzerland reserved their third-party rights.
- On 27 July 1999, the EC made a request to the Director-in-Charge to determine the composition of the Panel.
- On 6 August 1999, the Panel was composed. The report of the panel was circulated to Members on 15 June 2000.

The panel found that the “business” exemption in the US Copyright Act did not meet the requirements of Article 13 of the TRIPS Agreement and was thus inconsistent with Articles 11 *bis*(1)(iii) and 11(1)(ii) of the Berne Convention (1971) as incorporated into the TRIPS Agreement by Article 9.1 of that Agreement. The panel noted, *inter alia*, that a substantial majority of eating and drinking establishments and close to half of retail establishments were covered by the business exemption.

Arbitration

- On 23 July 2001, the US and the EC notified the DSB of their agreement to pursue arbitration pursuant to Article 25.2 of the DSU in order to determine the level of nullification or impairment of benefits to the EC as result of Section 110(5)(B) of the US Copyright Act. On 9 November 2001, the arbitrator determined that the level of EC benefits which were being nullified or impaired as a result of the operation of Section 110(5)(B) amounted to Euro 1,219,900 per year.

GENERAL OVERVIEW OF ACTIVE WTO DISPUTE SETTLEMENT CASES INVOLVING THE EC AS COMPLAINANT OR DEFENDANT AND OF ACTIVE CASES UNDER THE TRADE BARRIERS REGULATION

The EC's right to suspend concessions or other obligations has been safeguarded by means of a request under Article 22.2 DSU made on 7 January 2002. The requested suspension of TRIPs obligations consists in the levying of a special fee to US right holders that apply for action by the EU customs authorities to block pirated copyright goods. The EC request was immediately submitted to arbitration due to US opposition.

The arbitration procedure is currently suspended.

So far, the US has failed to comply with the DSB report adopted in 2000.

US v China (Enforcement of Copyright Laws)

China – Measures Affecting the Protection and Enforcement of Intellectual Property Rights

Report of the Panel

WT/DS362/R, 26 January 2009

- *TRIPS, Article 41*

1. Members shall ensure that enforcement procedures as specified in this Part are available under their law ***so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements.*** These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.

TRIPS, Article 61

Members shall provide for criminal procedures and penalties to be applied ***at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale.*** Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity. ***In appropriate cases, remedies available shall also include the seizure, forfeiture and destruction of the infringing goods*** and of any materials and implements the predominant use of which has been in the commission of the offence. ***Members may provide for criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights, in particular where they are committed wilfully and on a commercial scale.***

Article 46

- 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***.
.In regard to counterfeit trademark goods, the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce.

US Claims

- That the fixed thresholds for criminal prosecution of infringement in China do not permit prosecution of all commercial scale copyright infringement or all willful TM infringement;
- That Chinese regulations, as a whole, prevent the destruction of seized infringing goods;
- That Chinese censorship laws prevent the enforcement of copyright until a work has been approved for publication, creating an impermissible “formality” to copyright enforcement.

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Article 4 of China’s Copyright Law;

“[w]orks the publication or distribution of which is prohibited by law shall not be protected by this Law.”

Article 5(2) of the Berne Convention

“The enjoyment and exercise of these rights shall not be subject to any formality”

That Chinese regulations, as a whole, prevent the destruction of seized infringing goods.

“the United States understands that Article 27 of the Customs IPR Regulations and Article 30 of the Customs IPR Implementing Measures set forth a hierarchy of requirements for the disposal of goods that infringe intellectual property rights and that are confiscated by Chinese customs authorities. Under the hierarchy, the customs authorities often appear to be required to give priority to disposal options that would allow such goods to enter the channels of commerce (for instance, through auctioning the good after removing their infringing features”

China - Measures Affecting the Protection and Enforcement of IPR, United States Request for Consultations, 10 April 2007

That the fixed thresholds for criminal prosecution of infringement in China do not permit prosecution of all commercial scale copyright infringement or all willful TM infringement.

Articles 213 - 220 of China's Criminal Law, pursuant to Supreme People's Court's interpretations in December 2004: criminal prosecutions only for:

“illegal business volume” RMB 50,000 (USD \$ 6,925)

“illegal gains” RMB 30,000 (USD \$4,155)
or 1,000 copies

“By focusing solely on business volume, copy, and profit thresholds that can only be met by counting finished goods, China’s criminal thresholds require Chinese enforcement officials to disregard other specific, telling indicia of commercial scale piracy and counterfeiting . . .”

US First Submission
executive summary, para. 39

WTO Procedures

- On 13 August 2007, the United States requested the establishment of a panel. At its meeting on 25 September 2007, the DSB established a Panel. Argentina, the European Communities, Japan, Mexico and Chinese Taipei reserved their third-party rights. Subsequently, Australia, Brazil, Canada, India, Korea, Thailand and Turkey reserved their third-party rights. On 3 December 2007, the United States requested the Director-General to compose the Panel. On 13 December 2007, the Director-General composed the Panel. The Panel met with the parties on 14-16 April 2008 and on 18-19 June 2008. It met with the third parties on 15 April 2008.
- The Panel submitted its interim report to the parties on 9 October 2008. The Panel submitted its final report to the parties on 13 November 2008. Report published 26 January 2009, **WT/DS362/R**

Denial of copyright claim

7.50 The Panel finds that the Copyright Law is sufficiently clear, on its face, to show that Article 4(1) denies the protection of Article 10 to certain works, including those of WTO Member nationals, as the United States claims.

Claim under Article 41.1 of the TRIPS Agreement

7.161 The United States claims that the enforcement provisions of Chapter V of China's Copyright Law are unavailable with respect to works denied copyright protection under Article 4 of that Law. Therefore, China fails to ensure that enforcement procedures as specified in Part III of the TRIPS Agreement are available under its law, as required by Article 41.1 of the TRIPS Agreement.

Claim under Article 41.1 of the TRIPS Agreement

- 7.168 The Panel recalls its conclusion above that the Copyright Law, specifically the first sentence of Article 4, is inconsistent with China's obligations (with respect to the rights specially granted by the Berne Convention) under Article 5(1) of that Convention, as incorporated by Article 9.1 of the TRIPS Agreement. In the absence of protection of the rights specially granted by the Berne Convention, there can be no enforcement procedures against any act of infringement of such rights with respect to the relevant works.

Claims under Article 61 of the TRIPS Agreement

7.182 The United States claims that the criminal procedures referred to in Article 47 of China's Copyright Law are unavailable with respect to works denied copyright protection under Article 4 of that Law. Therefore, China does not provide for, or make available, criminal procedures and penalties to be applied in certain cases of wilful copyright piracy on a commercial scale, as required by the first and second sentences of Article 61 of the TRIPS Agreement.

Claims under Article 61 of the TRIPS Agreement

7.185 The Panel notes that these claims concern the denial of copyright protection under Article 4(1) of the Copyright Law and its impact on enforcement. The Panel has already ruled on those issues in its consideration of the claims under Article 5(1) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement, and under Article 41.1 of the TRIPS Agreement, respectively. Additional findings regarding these claims under Article 61 of the TRIPS Agreement would not contribute further to a positive solution to this dispute. Therefore, it is unnecessary for the Panel to rule on these claims.

Claim under Article 59 of the TRIPS Agreement

7.197 The United States claims that the competent Chinese authorities lack the scope of authority to order the destruction or disposal of infringing goods required by Article 59 of the TRIPS Agreement. *Donation to social welfare bodies* can be harmful to a right holder and nothing appears to prevent such bodies from selling the infringing goods; *sale to the right holder* harms the right holder in the amount that the right holder pays for the infringing goods; and *auction* does not constitute disposal outside the channels of commerce and, absent his consent, may harm the right holder.

CONCLUSIONS AND RECOMMENDATION

8.5 In this dispute, the Panel's task was not to ascertain the existence or the level of trademark counterfeiting and copyright piracy in China in general nor to review the desirability of strict IPR enforcement. The United States challenged three specific alleged deficiencies in China's IPR legal system in relation to certain specific provisions of the TRIPS Agreement. The Panel's mandate was limited to a review of whether those alleged deficiencies, based upon an objective assessment of the facts presented by the parties, are inconsistent with those specific provisions of the TRIPS Agreement.

USTR, 2009 Special 301 Report

April 30, 2009

On March 20, 2009, the WTO Dispute Settlement Body (“DSB”) adopted a panel report ruling in favor of the US that (1) China’s denial of copyright protection to works that do not meet China’s content review standards is impermissible under the TRIPS Agreement; and (2) China’s customs rules cannot allow seized counterfeit goods to be publicly auctioned after only removing the infringing mark.

With respect to the third claim concerning China’s thresholds for criminal prosecution and conviction of counterfeiting and piracy, while the US prevailed on the interpretation of the important legal standards in Article 61 of the TRIPS Agreement, including the finding that criminal enforcement measures must reflect and respond to the realities of the commercial marketplace, the panel found that it needed additional evidence before it could uphold the overall U.S. claim that China’s criminal thresholds are too high.

The US looks forward to working with China to implement the Dispute Settlement Body’s (DSB) recommendations and rulings in this dispute.

PRIORITY WATCH LIST -CHINA

While the Chinese Government continues to provide increased attention to the IPR environment, the shared goal of significantly reducing IPR infringement throughout China has not yet been achieved. China's IPR enforcement regime remains largely ineffective and non-deterrent.

The United States also remains concerned by reports that officials, apparently motivated by the financial crisis and the need to maintain jobs, are urging more lenient enforcement of IPR laws. The United States believes that, consistent with the rule of law, IPR enforcement actions should be initiated, cases should be decided, and remedies should be granted based on the merits of the case and in accordance with the law.

Moreover, a strengthened approach to IPR protection and enforcement in China would contribute to a more robust and innovative economy in the longer term.

China

Of particular concern is the rise of Internet piracy in China, especially given its emergence as a leading nation in terms of the number of Internet, broadband and mobile device users. Strong action to curb trademark counterfeiting and copyright piracy on the Internet is critical to the future of IPR protection in China. China should significantly increase criminal prosecutions and other enforcement actions against Internet-based piracy and counterfeiting operations through a coordinated, national effort backed by appropriate resources.

China

The U.S. copyright industries estimate that losses due to piracy in China were approximately \$3.5 billion for the music recording and business software industries alone. While Internet piracy continues to grow, trade in illegal optical discs also continues to thrive, supplied by both licensed and unlicensed factories and by smugglers. Small retail shops continue to be the major commercial outlets for pirated movies and music and a wide variety of counterfeit goods. Piracy of books and journals and end-user piracy of business software also remain key concerns.

China

Inadequate IPR enforcement is a key factor contributing to these shortcomings, and there are a number of legal obstacles to effective enforcement that result in limited deterrence provided by Chinese law. These impediments include:

- high value and volume thresholds that must be met before criminal prosecution of IPR infringement is possible as well as difficulties in initiating or transferring cases to the criminal authorities that do meet China's thresholds for criminal prosecution.
- Moreover, the vast majority of enforcement is channeled to administrative authorities. U.S. trademark and copyright industries continue to point out that administrative fines are too low and irregularly awarded to provide an effective deterrent, and as a result infringers continue to consider administrative seizures and fines as a cost of doing business.
- IPR enforcement at the local level is hampered by poor coordination among Chinese Government ministries and agencies, local protectionism and corruption, high thresholds for initiating investigations and prosecuting criminal cases, lack of training, and inadequate and non-transparent processes.