

# SHAPING CHINESE CRIMINAL ENFORCEMENT NORMS THROUGH THE TRIPS AGREEMENT

*Peter K. Yu\**

## I. Introduction

Entered into force on January 1, 1995, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) built into the international intellectual property regime a set of comprehensive multilateral norms on intellectual property enforcement. The Agreement became ‘the first international [intellectual property] treaty to include provisions that deal with domestic criminal procedures and remedies’.<sup>1</sup> Article 61 of the TRIPS Agreement specifically requires members of the World Trade Organization (WTO) to ‘provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale’.

Shortly after the adoption of the TRIPS Agreement, international bureaucrats, government policymakers, industry representatives, and academic commentators quickly extolled the benefits of having a wide set of international intellectual property enforcement standards.<sup>2</sup> A decade later, however, developed countries and their supportive industries began to complain about the inadequacy and ineffectiveness of these standards. They have also pushed aggressively for the establishment of new and higher standards through bilateral, plurilateral, and

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<sup>1</sup> Watal, Jayashree (2010), ‘US-China intellectual property dispute — A comment on the interpretation of the TRIPS enforcement provisions’, *Journal of World Intellectual Property*, **13** (5), 605–19, 613.

<sup>2</sup> Eg Gervais, Daniel (2008), *The TRIPS Agreement: Drafting History and Analysis*, 3rd edn, London: Sweet & Maxwell, p. 440; UNCTAD-ICTSD (2005), *Resource Book on TRIPS and Development*, Cambridge: Cambridge University Press, p. 629; Correa, C.M. (2009), ‘The push for stronger enforcement rules: Implications for developing countries’, in *The Global Debate on the Enforcement of Intellectual Property Rights and Developing Countries*, Geneva: ICTSD, pp. 27–80, 34; Otten, Adrian and Hannu Wager (1996), ‘Compliance with TRIPS: The emerging world view’, *Vanderbilt Journal of Transnational Law*, **29** (3), 391–413, 403.

regional trade agreements, including the recently adopted yet highly controversial Anti-Counterfeiting Trade Agreement (ACTA).<sup>3</sup>

This chapter examines the challenges in using international intellectual property agreements to shape local criminal enforcement norms, utilizing China as a case study. It begins by providing a brief background of Article 61 of the TRIPS Agreement, which introduced criminal enforcement obligations to the international intellectual property system. The chapter then examines the recent US-China dispute over the China's failure to comply with the TRIPS enforcement provisions. It concludes by noting the limitations of using the TRIPS Agreement to shape local criminal enforcement norms, especially at a time when countries have yet to reach a global consensus on these norms.

## II. The TRIPS approach

The Paris Convention for the Protection of Industrial Property (Paris Convention) and the Berne Convention for the Protection of Literary and Artistic Works (Berne Convention) are the cornerstones of the international intellectual property system. Although these two conventions contain provisions on intellectual property enforcement, the impact of these provisions to date has been rather limited.<sup>4</sup>

Under the Paris Convention, Article 9 provides detailed provisions on the seizure of goods bearing an infringing trademark or trade name upon their importation. Article 10(1) applies those seizure provisions to the 'direct or indirect use of a false indication of the source of the goods or the identity of the producer, manufacturer, or merchant'. Article 10*bis* requires members to provide 'effective protection against unfair competition'. Article 10*ter* further requires members to provide 'appropriate legal remedies effectively to repress all the acts referred to in Articles 9, 10, and 10*bis*'.

Under the Berne Convention, Article 13(3) allows for the seizure of infringing copies of protected sound recordings upon their importation. Article 15 stipulates who is entitled to institute infringement proceedings to enforce protected rights under the Convention. Article 16 further governs the seizure of infringing copies of a protected work.

Notably, neither Convention includes a provision pertaining to criminal enforcement of intellectual property rights. In fact, the international minimum standard for criminal enforcement did not emerge until after the adoption of the TRIPS Agreement.<sup>5</sup> The reluctance to adopt such a standard is understandable. Although greater international harmonization provided the impetus for the development of the international intellectual property system, the drafters of both the Paris and Berne Conventions made a conscious and deliberate choice in not creating a uniform

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<sup>3</sup> Yu, Peter K. (2004), 'Currents and crosscurrents in the international intellectual property regime', *Loyola of Los Angeles Law Review*, **38** (1), 323–443, 392–400; Yu, Peter K. (2011), 'Sinic trade agreements', *U.C. Davis Law Review*, **44** (3), 953–1028, 961–86; Yu, Peter K. (2011), 'Six secret (and now open) fears of ACTA', *SMU Law Review*, **64** (4), forthcoming.

<sup>4</sup> UNCTAD-ICTSD, *supra* note 2, at 629–30.

<sup>5</sup> Watal, *supra* note 1, at 613.

universal code.<sup>6</sup> Instead, they aimed to develop international minimum standards and to promote national treatment of authors and inventors.<sup>7</sup>

During the Conventions' formative period, countries harboured wide and deep disagreements over how intellectual property rights were to be protected.<sup>8</sup> This disagreement persists even today. It is therefore no surprise that both the Paris and Berne Conventions include explicit provisions stating that enforcement within each member state is to be governed by domestic law. Article 2(3) of the Paris Convention declares:

The provisions of the laws of each of the countries of the Union relating to judicial and administrative procedure and to jurisdiction, and to the designation of an address for service or the appointment of an agent, which may be required by the laws on industrial property are expressly reserved.

Article 5(3) of the Berne Convention also states explicitly that '[p]rotection in the country of origin is governed by domestic law'.

To strengthen enforcement of intellectual property rights, developed countries and their supportive industries demanded new standards for criminal enforcement of intellectual property rights. In its final form, Article 61 of the TRIPS Agreement provides:

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.

For developed countries, the establishment of this new provision and the attendant deterrent effect is of paramount importance. After all, intellectual property rights holders are unlikely to obtain meaningful protection unless rights can be effectively enforced. For less developed countries,<sup>9</sup> however, the establishment of this new provision was rather controversial. Article 61 not only would generate alarming demands on economic resources and political

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<sup>6</sup> Yu, *supra* note 3, at 348–9, 376.

<sup>7</sup> Dinwoodie, Graeme B. (2007), 'The international intellectual property system: Treaties, norms, national courts, and private ordering', in Daniel J. Gervais (ed.), *Intellectual Property, Trade and Development: Strategies to Optimize Economic Development in a TRIPS Plus Era*, Oxford: Oxford University Press, pp. 61–114, 66–7.

<sup>8</sup> UNCTAD-ICTSD, *supra* note 2, at 575; Li Xuan and Carlos M. Correa (2009), 'Towards a development approach on IP enforcement: Conclusions and strategic recommendations', in Li Xuan and Carlos M. Correa (eds), *Intellectual Property Enforcement: International Perspectives*, Cheltenham: Edward Elgar Publishing, pp. 207–12, 207.

<sup>9</sup> The TRIPS Agreement distinguishes between developing and least developed countries. This chapter uses 'less developed countries' to denote both developing and least developed countries. When referring to the TRIPS Agreement, however, this chapter may return to using the terms 'developing countries' and 'least developed countries'.

capital<sup>10</sup> but would also upset the longstanding treatment of intellectual property rights as private rights<sup>11</sup> — a tradition explicitly recognized by the preamble of the TRIPS Agreement.

As a result of the differences between developed and less developed countries, as well as the continuous disagreement among WTO member states over whether criminal enforcement should be extended to *all* forms of intellectual property rights, ‘the exact coverage of criminal measures in the TRIPS Agreement was negotiated back and forth between July and December 1990’ — a key stage of the TRIPS negotiations.<sup>12</sup> In the end, the draft text of the TRIPS Agreement included most of the language proposed by developed countries, due to their stronger bargaining position, better coordination, and superior legal and technical expertise.<sup>13</sup> As a compromise, less developed countries successfully demanded the adoption of Article 41.5, which stipulates that a WTO member is not required to devote more resources to intellectual property enforcement than to other areas of law enforcement.<sup>14</sup>

Immediately after the adoption of the TRIPS Agreement, developed countries and their industries were generally enthusiastic about the enforcement provisions in the TRIPS Agreement. A few commentators, however, cautioned that the provisions may not be as robust and effective as anticipated. In a prescient article published shortly after the Agreement entered into effect, Jerome Reichman and David Lange described the enforcement provisions as the ‘Achilles’ heel of the TRIPS Agreement’.<sup>15</sup> As they observed, ‘[T]he enforcement provisions are crafted as broad legal standards, rather than as narrow rules, and their inherent ambiguity will make it harder for mediators or dispute-settlement panels to pin down clear-cut violations of international law’.<sup>16</sup> They further predicted that ‘the level of enforcement under the TRIPS Agreement will greatly disappoint rightsholders in the developed countries, and that recourse to coercive measures will not appreciably improve the situation in the short and medium terms’.<sup>17</sup>

The position taken by Professors Reichman and Lange was not surprising. At the time of the writing, and even today, the TRIPS enforcement provisions are relatively new and primitive. They do not compare well with the established norms in the Paris and Berne Conventions, both of which existed for more than a century. If one takes into consideration the many new developments in the digital environment and the related enforcement challenges, the TRIPS provisions become even more antiquated, constrained, inadequate, and ineffective.<sup>18</sup>

### III. The US-China dispute

In the first decade of the implementation of the TRIPS Agreement, no country has ever used the Agreement to induce other countries to provide greater criminal enforcement of intellectual property rights. The first challenge came in April 2007, when the United States filed a complaint

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<sup>10</sup> Yu, Peter K. (2010), ‘Enforcement, economics and estimates’, *The WIPO Journal*, 2 (1), 1–19, 2–6.

<sup>11</sup> Yu, Peter K. (2011), ‘TRIPS enforcement and developing countries’, *American University Law Review*, 26 (3), 727–82, 747–54.

<sup>12</sup> Gervais, *supra* note 2, at 491.

<sup>13</sup> Yu, *supra* note 3, at 363.

<sup>14</sup> Gervais, *supra* note 2, at 440; UNCTAD-ICSD, *supra* note 2, at 585.

<sup>15</sup> Reichman, J.H., and David Lange (1998), ‘Bargaining around the TRIPS Agreement: The case for ongoing public-private initiatives to facilitate worldwide intellectual property transactions’, *Duke Journal of Comparative and International Law*, 9 (1), 11–68, 34–40.

<sup>16</sup> *Ibid.* at 35.

<sup>17</sup> *Ibid.* at 38–9.

<sup>18</sup> Yu, Peter K. (2011), ‘TRIPS and its Achilles’ heel’, *Journal of Intellectual Property Law*, 18 (2), 479–531, 502–3.

against China over the latter's failure to protect and enforce intellectual property rights pursuant to the TRIPS Agreement.<sup>19</sup> Among the issues addressed by the WTO Dispute Settlement Body (DSB) were (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; and (3) the denial of copyright protection to works that have not been authorized for publication or dissemination within China.<sup>20</sup> For our purposes, this chapter will focus only on the first claim, which many commentators and rights holders have considered the most important in the dispute.<sup>21</sup>

## A. *United States*

Article 61 of the TRIPS Agreement states: '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'. 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 honour 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 Chinese Criminal Law states:

Whoever, for the purpose of making profits, commits any of the [specified] acts of infringement [on] 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 on Several Issues of Concrete Application of Laws in Handling Criminal Cases of Infringing Intellectual Property establishes the amount for 'relatively large' as 'not less than 30,000 Yuan [about US\$4,500 at the time of the panel report]'. Article 1 of a follow-up judicial interpretation, which was issued three years later, 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'. Adopted a few days before the filing of the WTO complaint and in direct response to US pressure, the threshold reduced the number of copies by half from 1000.

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<sup>19</sup> World Trade Organization (2007), *China — Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, Request for Consultations by the United States, WT/DS362/1.

<sup>20</sup> The original complaint also included a fourth claim: the unavailability of criminal procedures and penalties for infringing activities that involved either reproduction or distribution, but not both. That claim, however, was resolved before the panel's establishment.

<sup>21</sup> Harris, Donald P. (2008), 'The honeymoon is over: The U.S.-China WTO intellectual property complaint', *Fordham International Law Journal*, 32 (1), 96–187, 118–9; Pauwelyn, Joost (2010), 'The dog that barked but didn't bite: 15 years of intellectual property disputes at the WTO', *Journal of International Dispute Settlement*, 1 (2), 389–429, 414.

The United States argued that those 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”’,<sup>22</sup> provided a safe harbour to shelter pirates and counterfeiters from criminal prosecution.<sup>23</sup> In the United States’ view, China failed to provide criminal enforcement and legal remedies as required by Articles 61 and 41.1, respectively, of the TRIPS Agreement.

The United States’ active push for greater criminal enforcement in China can be attributed to a number of reasons. First, due to the high costs incurred in enforcing intellectual property rights, the more a country is required to criminalize infringing activities, the more the costs and risks of protection will shift from private rights holders to national governments.<sup>24</sup>

Second, rights holders can consider criminal enforcement as a supplementary option (in addition to civil enforcement, mediation, and arbitration). The existence of the criminal enforcement option for foreign rights holders in China is particularly important, considering the many complaints they have voiced over the low penalties handed down by Chinese courts.<sup>25</sup> As foreign businesses often observe, you can win the lawsuit and still lose money in China. Thus, many American rights holders remain reluctant to fund litigation efforts that most likely will not result in meaningful compensation.

Finally, a number of rights holders sincerely believe that strong criminal enforcement would provide the much-needed deterrent to reduce piracy and counterfeiting.<sup>26</sup> As a result, criminal enforcement is a key component of not only the US-China intellectual property enforcement strategy,<sup>27</sup> but also at the top of the agenda for ongoing efforts to address Internet file sharing and for the development of bilateral, plurilateral, and regional trade agreements. Articles 23 to 26 of ACTA, for example, include detailed provisions concerning criminal enforcement of intellectual property rights.

## **B. China**

In response to the US claims, China pointed out that the country had in place a unique parallel administrative enforcement system that ‘does not have a parallel in most Western systems, including the US legal system’.<sup>28</sup> Due to limited resources and a vastly different socio-legal tradition, public security authorities in China handle serious cases (cases above the thresholds), while administrative copyright and commerce authorities tackle low-scale infringements (cases

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<sup>22</sup> World Trade Organization (2009), *China — Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, Panel Report, WT/DS362/R, para. 7.451 (Panel Report).

<sup>23</sup> *Ibid.* para. 7.478.

<sup>24</sup> Nie, Jianqiang (2006), *The Enforcement of Intellectual Property Rights in China*, London: Cameron May, p. 130; Meléndez-Ortiz, Ricardo (2009), ‘Foreword’, in *The Global Debate on the Enforcement of Intellectual Property Rights and Developing Countries*, Geneva: ICTSD, pp. ix–xii, ix; Yu, supra note 10, at 3.

<sup>25</sup> Yu, Peter K. (2006), ‘From pirates to partners (Episode II): Protecting intellectual property in post-WTO China’, *American University Law Review*, 55 (4), 901–1000, 962–4.

<sup>26</sup> Chow, Daniel C.K. (2002), *A Primer on Foreign Investment Enterprises and Protection of Intellectual Property in China*, The Hague: Kluwer Law International, p. 217.

<sup>27</sup> Office of the United States Trade Representative (2011), *2011 National Trade Estimate Report on Foreign Trade Barriers*, Washington: Office of the United States Trade Representative, p. 71.

<sup>28</sup> Panel Report, supra note 22, annex B-1, para. 9.

below the thresholds).<sup>29</sup> Thus, instead of providing a safe harbour for intellectual property criminals, Chinese law subjects ‘infringement on *any scale*’ to enforcement.<sup>30</sup>

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’.<sup>31</sup> 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’.<sup>32</sup> This is particularly true when one considers that Chinese criminal law allows private prosecution,<sup>33</sup> which, China claimed, ‘could unleash a large volume of private enforcement actions and impose a significant burden on the judicial system’.<sup>34</sup> 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’<sup>35</sup> — a point on which the United States did not comment.<sup>36</sup>

In addition to justifying the need for criminal thresholds, China explained to the panel the complexity of its criminal law. It also noted the irony that the United States employs numerical thresholds to distinguish between felonies and misdemeanours in the area of intellectual property crimes.<sup>37</sup> As China observed, ‘US authorities [in reality] applied criminal procedures to acts associated with at least \$2,000 of infringement’.<sup>38</sup> When asked specifically about the number of criminal prosecutions and convictions per year the United States had for wilful trademark counterfeiting and copyright piracy that involved amounts below the Chinese thresholds, the United States could only respond, ‘The U.S. Department of Justice . . . does not track federal intellectual property prosecutions or convictions at a level of detail sufficient to respond to this question’.<sup>39</sup>

It is worth noting, however, that US practice is quite different from its Chinese counterpart. The former reflects mere prosecutorial discretion, as opposed to numerical thresholds used for criminal prosecution. To some extent, the United States’ complaint reflects its preference for prosecutorial *discretion* over strict prosecutorial *thresholds*. As the United States made clear, it had no objection to China’s having prosecutorial discretion.<sup>40</sup> Nor was it challenging numerical thresholds per se.<sup>41</sup> Taking note of the US position, the panel stated expressly that its findings ‘are confined to the issue of what acts of infringement must be

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<sup>29</sup> Ibid. para. 7.476.

<sup>30</sup> Ibid.

<sup>31</sup> Ibid. para. 7.425.

<sup>32</sup> Ibid.

<sup>33</sup> Ibid. para. 7.598.

<sup>34</sup> Ibid.

<sup>35</sup> Ibid. para. 7.470.

<sup>36</sup> Ibid. para. 7.469.

<sup>37</sup> 18 USC s 2319; Harris, *supra* note 21, at 155.

<sup>38</sup> Panel Report, *supra* note 22, annex B-4, para. 38.

<sup>39</sup> World Trade Organization (2008), *China — Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, Responses by the United States of America to the Questions by the Panel to the Parties, WT/DS362/1, para. 45.

<sup>40</sup> Panel Report, *supra* note 22, para. 7.592.

<sup>41</sup> World Trade Organization, *supra* note 39, para. 7; World Trade Organization (2008), *China — Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, Responses by the United States of America to the Second Set of Questions by the Panel to the Parties, WT/DS362/1, para. 2.

criminalized and not those which must be prosecuted’.<sup>42</sup> The panel also recalled that it was ‘not asked to consider whether numerical thresholds, as a matter of principle, can implement an obligation in terms of cases “on a commercial scale”’.<sup>43</sup>

China further pointed out that the United States had misstated the calculation of its thresholds. Although the United States repeatedly emphasized how counterfeiters could avoid criminal punishment by limiting their inventory to 499 copies,<sup>44</sup> the thresholds do not operate in such a simple and rigid fashion. Nor should the panel focus on ‘a single moment of infringement’ or ‘a snapshot in time’, as opposed to sustained criminal activities over a long period of time.<sup>45</sup> 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’.<sup>46</sup> They may also calculate the thresholds over a prolonged period of time — say, up to five years.<sup>47</sup> In addition, even though a wide variety of thresholds exists, these thresholds function as alternatives, and courts apply criminal procedures and penalties whenever any one of these thresholds is satisfied.<sup>48</sup>

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 the Criminal Law.<sup>49</sup> In response to the US claim that Chinese courts did not consider indicia of piracy and counterfeiting,<sup>50</sup> such as ‘packaging used for pirated CDs or DVDs, fabrics used for designer products, cartridge housings for video games, and other materials used to make counterfeit products’,<sup>51</sup> China pointed out that its courts ‘consider semi-finished or unfinished products . . . [as] evidence of preparation and attempt’.<sup>52</sup> Chinese courts also use ‘materials and implements and other reliable indicia’ to determine criminal infringement.<sup>53</sup>

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’.<sup>54</sup> 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.<sup>55</sup> Article 1.1, for example, provided what China described as ‘a specific “caveat” that establishes boundaries on obligations, specifically in the realm of

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<sup>42</sup> Panel Report, *supra* note 22, para. 7.596.

<sup>43</sup> *Ibid.* para. 7.495.

<sup>44</sup> *Ibid.* annex A-1, para. 37; annex A-2, para. 11; annex A-4, para. 30; annex A-6, para. 12.

<sup>45</sup> *Ibid.* annex B-5, para. 9.

<sup>46</sup> *Ibid.* para. 7.461.

<sup>47</sup> *Ibid.* paras. 7.457, 7.461.

<sup>48</sup> *Ibid.* para. 7.454.

<sup>49</sup> *Ibid.* para. 7.439.

<sup>50</sup> *Ibid.* para. 7.482.

<sup>51</sup> *Ibid.* annex A-1, para. 40.

<sup>52</sup> *Ibid.* para. 7.483.

<sup>53</sup> *Ibid.* para. 7.648.

<sup>54</sup> *Ibid.* annex B-2, para. 16.

<sup>55</sup> *Ibid.* para. 7.481.



enforcement’.<sup>56</sup> China also underscored the fact that ‘the balance of rights and obligations in TRIPS is . . . very much at stake in this dispute’.<sup>57</sup> 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.<sup>58</sup> 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’.<sup>59</sup> 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*’,<sup>60</sup> which the Appellate Body has expressly adopted in other disputes.<sup>61</sup>

### C. *The WTO panel*

In its report, the 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’.<sup>62</sup> Instead of allowing a member to lower the specified TRIPS standards, the provision merely grants to a WTO member ‘freedom to determine the appropriate method of implementation of the provisions to which they are required to give effect’.<sup>63</sup>

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<sup>56</sup> Ibid. para. 7.511.

<sup>57</sup> Ibid. annex B-2, para. 2.

<sup>58</sup> Ibid. para. 7.497. As China explained:

In this particular instance . . . the United States bears a significantly higher burden than it would normally encounter. That is because the United States is advancing a claim — that Members of TRIPS must enact criminal laws that meet highly specific international standards — that cuts decisively against the tradition and norms of international law.

International organizations accord great deference to national authorities in criminal law matters. A review of international law shows that states have traditionally regarded criminal law as the exclusive domain of sovereign jurisdiction; where sovereign governments are subject to international commitments concerning criminal law, these commitments afford significant discretion to governments regarding implementation; and international courts have been exceedingly reluctant to impose specific criminal standards on states.

In light of prevailing international law, the United States must not merely show that its proposed interpretation of the TRIPS Article 61 obligation is correct by ordinary standards. It must also persuade this panel that the parties to TRIPS agreed to an obligation to reform their criminal laws of such specificity that it is a sharp departure from the practice of every country in every other international forum that relates to national criminal laws.

Ibid. annex B-1, paras. 11–3.

<sup>59</sup> Ibid. para. 7.497.

<sup>60</sup> Ibid. annex B-3, para. 4. As China elaborated:

This canon holds that when a treaty standard is vague or ambiguous the Panel should choose the interpretation that imposes the least imposition on a country’s sovereignty. The Panel should choose a more intrusive interpretation only where there is clear and specific evidence that a more intrusive interpretation was meant.

The logic behind this canon is that countries should not be assumed lightly to concede sovereignty. The Panel accordingly must find specific support for an interpretation that does involve an intrusive concession of sovereignty. . . .

The international criminal law cited in China’s first written submission makes clear that this canon has particular justification in the realm of criminal law.

Ibid. annex B-3, paras. 4–6.

<sup>61</sup> World Trade Organization (1998), *European Communities — Measures Concerning Meat and Meat Products*, Appellate Body Report, WT/DS26/AB/R, WT/DS48/AB/R, para. 165 n 154.

<sup>62</sup> Panel Report, supra note 22, para. 7.513.

<sup>63</sup> Ibid.

The panel further declared that ‘Article 41.5 is an important provision in the overall balance of rights and obligations in Part III of the TRIPS Agreement’.<sup>64</sup> It nevertheless noted China’s failure to substantiate how private enforcement would overburden its criminal law system.<sup>65</sup> After all, China conceded that 11 out of 117 crimes were not subject to any specific threshold.<sup>66</sup> 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.<sup>67</sup>

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’.<sup>68</sup> It also recognized that ‘differences among Members’ respective legal systems and practices tend to be more important in the area of enforcement’.<sup>69</sup> In addition, the panel 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’.<sup>70</sup>

Ultimately for the panel, the key to deciding the first claim lay in the definition of the term ‘commercial scale’, which was ‘intentionally vague . . . and left undefined’ in the TRIPS Agreement.<sup>71</sup> To give meaning to this important term, the United States proposed that the term be extended as follows:

[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.<sup>72</sup>

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’.<sup>73</sup> 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’.<sup>74</sup>

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<sup>64</sup> Ibid. para. 7.594.

<sup>65</sup> Ibid. para. 7.598.

<sup>66</sup> Ibid. para. 7.429.

<sup>67</sup> Ibid.

<sup>68</sup> Ibid. para. 7.501.

<sup>69</sup> Ibid. para. 7.513.

<sup>70</sup> Ibid. paras. 7.518–7.528.

<sup>71</sup> Ibid. annex B-1, para. 22.

<sup>72</sup> Ibid. para. 7.480.

<sup>73</sup> Ibid. annex A-1, para. 25.

<sup>74</sup> Ibid. annex A-6, para. 8.

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'.<sup>75</sup> Meanwhile, with respect to highly expensive items such as professional software, the United States took the view that 'a single sale of an infringing product [could] qualify as "commercial scale"'.<sup>76</sup> The United States also raised the concern that the Internet and digital technological advancements could permit commercial piracy and counterfeiting that creates major damage to a market, citing the example of HDVDs (high-definition digital video discs) which 'can hold up to ten episodes of a TV series or several films'.<sup>77</sup>

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'.<sup>78</sup> As China claimed, the US approach 'reads the word "scale" completely out of the definition'.<sup>79</sup>

In addition to China and the United States, virtually all third parties submitted their proposed definitions of 'commercial scale'.<sup>80</sup> While these definitions varied, many of them undoubtedly had been coloured by recently signed free trade agreements, with the Australia-United States Free Trade Agreement being a notable example.<sup>81</sup>

In the end, the panel pointed out that the term 'commercial scale' appeared in only a single provision in the entire TRIPS Agreement.<sup>82</sup> Because the term was adopted out of 'a deliberate choice', it 'must be given due interpretative weight'.<sup>83</sup> Using the DSB's customary dictionary approach, the panel explained that the term includes both qualitative and quantitative elements.<sup>84</sup> As the panel reasoned: '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'.<sup>85</sup>

According to the panel, the term 'commercial scale' is 'a relative standard, which will vary when applied to different fact situations'.<sup>86</sup> Because the standard 'will vary by product and market',<sup>87</sup> it responds well to changing market conditions. As the panel explained: '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'.<sup>88</sup> The Panel saw 'no

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<sup>75</sup> Ibid. para. 7.480.

<sup>76</sup> Ibid. annex A-5, para. 2.

<sup>77</sup> Ibid. para. 7.654.

<sup>78</sup> Ibid. para. 7.481.

<sup>79</sup> Ibid.

<sup>80</sup> Ibid. paras. 7.484–7.493. The only third parties that did not submit a definition were India and Turkey, both of which failed to either provide a written submission or make an oral statement.

<sup>81</sup> Ibid. annex C-2, para. 11.

<sup>82</sup> Ibid. para. 7.539.

<sup>83</sup> Ibid. para. 7.543.

<sup>84</sup> Ibid. para. 7.538.

<sup>85</sup> Ibid. para. 7.577.

<sup>86</sup> Ibid. para. 7.600.

<sup>87</sup> Ibid. para. 7.604.

<sup>88</sup> Ibid. para. 7.657.

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'.<sup>89</sup> The panel also soundly rejected the United States' emphasis on *de minimis* use:

If the negotiators had intended it to be the number of cases, they might have been expected to phrase the provision more in terms of 'other than in a very limited number of cases' or 'other than in a *de minimis*/insignificant number of cases'.

... Had the negotiators wanted to exclude only *de minimis* infringement from the minimum standard of Article 61, they had a model in Article 60, or they could have used words such as 'except for minor or personal use'. However, they did not. Instead, Article 61 refers to size ('scale') qualified only by the word 'commercial'. This indicates that the negotiators intended something different from *de minimis*.<sup>90</sup>

To assess the consistency of China's criminal thresholds with this complex definition, the WTO panel looked to specific conditions in China's marketplace.<sup>91</sup> These conditions have been complicated by the fact that 'the Chinese market, including the market for many copyright and trademark-bearing goods, is fragmented and characterized by a profusion of small manufacturers, middlemen, distributors, and small outlets at the retail level'.<sup>92</sup> To some extent, the drafters of the TRIPS Agreement might not have this type of highly fragmented markets in mind when they adopted the provision.

Although the United States provided evidence in the form of press articles and industry and consultant reports,<sup>93</sup> the panel found the evidence insufficient to 'demonstrate what constituted "a commercial scale" in the specific situation of China's marketplace'.<sup>94</sup> As the panel explained, the information the United States provided was 'too little and too random'.<sup>95</sup> 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'.<sup>96</sup> They were also uncorroborated and did not 'refer to events or statements that would not require corroboration'.<sup>97</sup> 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'.<sup>98</sup>

In sum, without determining whether China had 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.

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<sup>89</sup> Ibid.

<sup>90</sup> Ibid. paras. 7.387, 7.553.

<sup>91</sup> Ibid. para. 7.604.

<sup>92</sup> Ibid. para. 7.615.

<sup>93</sup> Ibid. paras. 7.615–7.616.

<sup>94</sup> Ibid. para. 7.614.

<sup>95</sup> Ibid. para. 7.617.

<sup>96</sup> Ibid. para. 7.628.

<sup>97</sup> Ibid.

<sup>98</sup> Ibid. para. 7.629.

## D. *Analysis*

In retrospect, the United States' position might have been hurt by the Western stereotypes about the shortcomings of the Chinese legal system perpetuated by its policymakers, industries, commentators, and media. 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'.<sup>99</sup> If there is any inadequacy in the Chinese criminal system, the inadequacy lies in a lack of procedural safeguards and judicial independence, problematic evidentiary standards, local protectionism, and corruption.<sup>100</sup> Under-enforcement, however, is rarely a problem.

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'.<sup>101</sup> Dating back to at least a millennium before the time of Confucius<sup>102</sup> (who was given a nonhereditary post as a Minister of Crime at a young age)<sup>103</sup> 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.<sup>104</sup> Even in the intellectual property field, an area in 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.<sup>105</sup>

Moreover, as William Alford reminds us, the problem with China is not a lack of laws, but the existence of too many.<sup>106</sup> 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 US 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.

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<sup>99</sup> Chen, Jianfu (2008), *Chinese Law: Context and Transformation*, Leiden: Martinus Nijhoff Publishers, p. 261.

<sup>100</sup> Eg Hecht, Jonathan (1996), *Opening to Reform?: An Analysis of China's Revised Criminal Procedure Law*, New York: Lawyers Committee for Human Rights.

<sup>101</sup> Ren, Xin (1997), *Tradition of the Law and Law of the Tradition: Law, State, and Social Control in China*, Westport, Conn: Praeger Publishers, p. 37.

<sup>102</sup> Yu, supra note 25, at 969–74; Yu, Peter K. (2001), 'Piracy, prejudice, and perspectives: Using Shakespeare to reconfigure the U.S.-China intellectual property debate', 19 *Boston University International Law Journal*, 19 (1), 1–87, 32–4.

<sup>103</sup> Wolfgang, Marvin, 'Foreword', in Ren, supra note, at ix.

<sup>104</sup> Chow, Dan C.K. (2003), *The Legal System of the People's Republic of China in a Nutshell*, St. Paul, Minn: Thomson West, p. 50. Noted Chinese legal historian Philip Huang, however, disagreed: 'The conclusion [that the Qing legal system was predominantly penal and gave little attention to civil matters] . . . does not square with the documentary evidence. Archival case records have shown us that the Qing legal system in fact dealt regularly and frequently with civil cases.' Huang, Philip C. (2001), *Code, Custom, and Legal Practice in China: The Qing and the Republic Compared*, Stanford: Stanford University Press, p. 23.

<sup>105</sup> Dimitrov, Martin K. (2009), *Piracy and the State: The Politics of Intellectual Property Rights in China*, Cambridge: Cambridge University Press, p. 148; Nie, supra note 24, at 214.

<sup>106</sup> Alford, William P. (1994), 'How theory does — and does not — matter: American approaches to intellectual property law in East Asia', *UCLA Pacific Basin Law Journal*, 13 (1), 8–24, 21.

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.<sup>107</sup> 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 enforcement problems more difficult to tackle.<sup>108</sup> 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.

Given the challenges in asserting a strong claim concerning the lack of criminal enforcement of intellectual property rights in China, and the sensitive nature of such assertion, many commentators predicted that the United States would fail on that particular claim. The panel's findings, therefore, are not unexpected. Nevertheless, it is still interesting to see how the panel arrived at its conclusions. After all, the importance of this panel report is not in its conclusions, but rather in the reasoning behind them. Such reasoning likely will remain influential in the future interpretation and implementation of the TRIPS enforcement provisions.

#### **IV. Limitations of the TRIPS approach**

As far as criminal enforcement of intellectual property rights is concerned, the panel's findings and reasoning are rather illuminating. They show the complexity of the Chinese criminal system. They also reveal the significant challenges in using international intellectual property agreements to develop obligations involving a WTO member's criminal law system. To illustrate these challenges, this section will explore whether rights holders would have received meaningful protection of their intellectual property assets had the United States prevailed on the claim. Counterfactual reasoning is used to highlight the limits of Article 61 of the TRIPS Agreement.

Because China has a dual enforcement system, a large part of the answer to this question depends on whether criminal (and most likely judicial) enforcement will provide a more effective deterrent than administrative enforcement. As I noted earlier, administrative enforcement can be more effective than judicial enforcement under certain circumstances and outside Beijing, Shanghai, Guangzhou, and other major cities.<sup>109</sup> Administrative enforcement is also cheaper, quicker, more flexible, and less antagonistic.<sup>110</sup> 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.<sup>111</sup> It also allows for damage compensation and pre-litigation remedies. With the introduction since the 1990s of specialized courts with judges possessing intellectual property

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<sup>107</sup> Massey, Joseph A. (2006), 'The emperor is far away: China's enforcement of intellectual property rights protection, 1986–2006', *Chicago Journal of International Law*, 7 (1), 231–7, 234.

<sup>108</sup> Yu, Peter K. (2007), 'International enclosure, the regime complex, and intellectual property schizophrenia', *Michigan State Law Review*, 2007 (1), 1–33, 30.

<sup>109</sup> Yu, *supra* note 25, at 946–7.

<sup>110</sup> *Ibid.* at 946.

<sup>111</sup> *Ibid.*

expertise, courts in major cities have greatly improved. As a result, rights holders in these cities have increasingly resorted to the use of courts.<sup>112</sup> 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 might suggest limited improvements even if China had 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 law system. Thus, had the criminal thresholds been found to be inconsistent with the TRIPS Agreement, China could arguably re-label its administrative measures criminal or incorporate those measures into its 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'.<sup>113</sup> Moreover, as Donald Harris points out, lowering the criminal thresholds would not necessarily 'ensure a corresponding rise in criminal prosecutions or, for that matter, a reduction in infringement'.<sup>114</sup>

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 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. A major cause of the Opium War in the mid-nineteenth century was, in fact, 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'.<sup>115</sup> 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.<sup>116</sup> However, ex officio administrative enforcement — including the so-called administrative detention,<sup>117</sup> which is widely used in

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<sup>112</sup> Ibid. at 947; Sun, Catherine (2004), *China Intellectual Property for Foreign Business*, Hong Kong: LexisNexis, p. 12.

<sup>113</sup> Panel Report, supra note 22, para. 7.673.

<sup>114</sup> Harris, supra note 21, at 186.

<sup>115</sup> Hsü, Immanuel C.Y. (2000), *The Rise of Modern China*, 6th edn, Oxford: Oxford University Press, p. 152.

<sup>116</sup> Panel Report, supra note 22, annex C-2, para. 4.

<sup>117</sup> On administrative detention in China, see Biddulph, Sarah (2003), 'The production of legal norms: A case study of administrative detention in China', *UCLA Pacific Basin Law Journal*, 20 (2), 217–77; Peerenboom, Randall (2004), 'Out of the pan and into the fire: Well-intentioned but misguided recommendations to eliminate all forms of administrative detention in China', *Northwestern University Law Review*, 98 (3), 991–1104.

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.<sup>118</sup> 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.

Moreover, for a country that went through the Cultural Revolution, numerous class struggles, and hundreds, if not thousands, of mass campaigns, it is fair to question whether the Chinese would view criminal law the same way as Americans — or, for that matter, other Westerners. Ted Fishman, for example, has noted the cynical nature of the oft-conducted enforcement raids on piracy and counterfeiting:

The purposes behind the publicized raids are always obscure, and the Chinese who read about them are skeptical about taking the raids at face value. Are they the result of turf wars among the government fiefdoms that are themselves knee-deep in counterfeiting? Did the raided factories push the Party's tolerance of violent and eroticized Western entertainment too far? Did they pirate a movie backed by the Chinese government? Or was that day's demonstration of will just a show for a foreign trade group coming to China to — yet again — express its grave concerns over intellectual-property theft?<sup>119</sup>

The key to deterrence in a criminal law system is getting offenders to know what crimes they have committed and what punishment such crimes exact. If they do not know why they are punished or assume cynically that their stated crimes are just pretexts for other things they did — or worse, a large political ploy to please foreign government officials or trade groups — the law will not have a strong deterrent effect no matter how stiff the criminal penalties are. The increasing push for criminal measures also does not take into consideration the growing volume of literature questioning the deterrent effect of criminal penalties.<sup>120</sup>

From the standpoint of protecting human rights and civil liberties, 'increased criminalization of counterfeiting could become a tool for repression'.<sup>121</sup> Such penalties may also be disproportional to the offence in the intellectual property area, especially when the perpetrator is only a weak link within the chain of command in piracy and counterfeiting, such as street vendors.<sup>122</sup> As Andrew Mertha reminds us, '[a] prison sentence often means losing one's livelihood, one's family, and any prospects for a decent job in the future. This is true all over Asia, but it is particularly true in China.'<sup>123</sup> Indeed, given the strong antipathy toward crimes in Asian societies, criminal penalties may also carry a much higher penalty than is found in

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<sup>118</sup> Panel Report, *supra* note 22, para. 7.478.

<sup>119</sup> Fishman, Ted C. (2005), *China Inc.: How the Rise of the Next Superpower Challenges America and the World*, New York: Scribner, p. 236.

<sup>120</sup> Harris, *supra* note 21, at 158.

<sup>121</sup> Mertha, Andrew C. (2005), 'Shifting legal and administrative goalposts: Chinese bureaucracies, foreign actors, and the evolution of China's anti-counterfeiting enforcement regime', in Neil J. Diamant, Stanley B. Lubman, and Kevin J. O'Brien (eds), *Engaging the Law in China: State, Society, and Possibilities for Justice*, Stanford: Stanford University Press, pp. 161–92, 180.

<sup>122</sup> Correa, Carlos M. (2007), *Trade Related Aspects of Intellectual Property Rights: A Commentary on the TRIPS Agreement*, Oxford: Oxford University Press, p. 449.

<sup>123</sup> Mertha, *supra* note 121, at 180.



Western countries. As Professor Harris has rightly questioned, ‘whether five years in a U.S. prison corresponds to five years in a Chinese prison is unknown’.<sup>124</sup>

Finally, it is interesting to find the United States taking a strong position on criminal enforcement when US rights holders — most notably American music and movie industries — have increasingly lobbied for the use of administrative mechanisms, as either a substitute or an institutional enhancement. As these industries have repeatedly noted in the context of Internet file sharing, criminal penalties are slow, intrusive, and highly unpopular.<sup>125</sup> 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’.<sup>126</sup> From the US standpoint, a preferable approach, therefore, is to develop a more streamlined administrative process<sup>127</sup> or to facilitate greater cooperation between rights holders and Internet service providers.<sup>128</sup> Because the TRIPS Agreement was drafted with limited anticipation of developments in the digital environment,<sup>129</sup> a blind push for reforms based on provisions that were drafted in the early 1990s — such as those in the TRIPS Agreement<sup>130</sup> — may ultimately undermine the rights holders’ interests, especially in an age of rapidly-changing technological and business conditions.

## V. Conclusion

The TRIPS Agreement introduced to the international intellectual property system a minimum standard for criminal enforcement of intellectual property rights. While this standard is important to developed countries and their supportive industries, its newness and underdevelopment have greatly limited its ability to provide meaningful protection to intellectual property rights holders. As the recent US-China TRIPS enforcement dispute has shown, the TRIPS Agreement was the product of political compromises struck between developed and less developed countries during the TRIPS negotiations. The provisions, therefore, are less effective than developed countries and their industries have anticipated.

More importantly for our purposes, the US-China dispute has shown the challenges in using international intellectual property agreements, in particular the TRIPS Agreement, to shape local criminal enforcement norms. While developed countries and their industries continue to emphasize the importance of criminal enforcement, there are limits as to what international

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<sup>124</sup> Harris, *supra* note 21, at 146.

<sup>125</sup> Yu, Peter K. (2010), ‘Digital copyright reform and legal transplants in Hong Kong’, *University of Louisville Law Review*, **48** (4), 693–770, 701–9.

<sup>126</sup> Rolling Stone (2008), ‘RIAA’s Gaze Turns from Users to ISPs in Piracy Fight’, <http://www.rollingstone.com/music/news/riaas-gaze-turns-from-users-to-isps-in-piracy-fight-20081219> (accessed 15 June 2011).

<sup>127</sup> Lemley, Mark A., and R. Anthony Reese (2004), ‘Reducing digital copyright infringement without restricting innovation’, *Stanford Law Review*, **56** (6), 1345–1434, 1410–25; Lipton, Jacqueline D. (2005), ‘Solving the digital piracy puzzle: Disaggregating fair use from the DMCA’s anti-device provisions’, *Harvard Journal of Law and Technology*, **19** (1), 111–60, 149–55; Yu, *supra* note 125, at 766.

<sup>128</sup> On the graduated response system, see Bridy, Annemarie (2010), ‘Graduated response and the turn to private ordering in online copyright enforcement’, *Oregon Law Review*, **89** (1), 81–132; Strowel, Alain (2009), ‘Internet piracy as a wake-up call for copyright law makers — Is the “graduated response” a good reply?’, *The WIPO Journal*, **1** (1), 75–86; Yu, Peter K. (2010), ‘The graduated response’, *Florida Law Review*, **62** (5), 1373–430, 1379–94.

<sup>129</sup> Yu, Peter K. (2008), ‘Teaching international intellectual property law’, *Saint Louis University Law Journal*, **52** (3), 923–50, 933–4.

<sup>130</sup> Gervais, D.J. (2007), ‘The TRIPS Agreement and the Doha Round: History and impact on economic development’, in Peter K. Yu (ed.), *Intellectual Property and Information Wealth: Issues and Practices in the Digital Age*, vol. 4, Westport, Conn.: Praeger Publishers, pp. 23–72, 43.

agreements could achieve at a time when countries have yet to reach a global consensus on criminal enforcement of intellectual property rights.

It is one thing to set norms in a field that was obscure and highly technical in the past and that has only recently come of age (intellectual property). It is quite another thing to shape a field that already has thousands of years of history, implicating a wide range of cultures, philosophies, and traditions (criminal law). The WTO panel report not only clarifies the enforcement-related obligations of each WTO member state but also provides a resounding reminder of why enforcement can be challenging when it implicates laws outside the intellectual property system. As countries continue to develop new and higher international intellectual property enforcement standards, they should keep these challenges in mind.