Contents

Articles
Protection of Intellectual Property in Italy
by Marina Tavassi

The Italian System of IP Civil Litigation
by Gabriella Muscolo

China’s New Antimonopoly Law: From a Critical Perspective
by Xiaoye Wang

Protection and Enforcement of Intellectual Property Rights: A WTO Case against China
by Jianjun Guo

Law
Legislative Decree of 15 February 2007, No. 10, Provisions implementing community and international obligations
Editorial comment by Giuseppe Sena

Ministerial Decree of 3 October 2007, Assignment of the priority search to the European Patent Office
Editorial comment by Paola A.E. Frassi
YEARBOOK 2007

ARTICLES

Protection of Intellectual Property in Italy
by Marina Tavassi ................................................................. 3

The Italian System of IP Civil Litigation
by Gabriella Muscolo ............................................................ 17

China’s New Antimonopoly Law: From a Critical Perspective
by Xiaoye Wang ................................................................. 27

Protection and Enforcement of Intellectual Property Rights: a
WTO Case against China
by Jianjun Guo ........................................................................ 33

LAW

Legislative Decree of 15 February, 2007, No. 10, Provisions implementing community and international obligations
Editorial comment by Giuseppe Sena .................................. 71

Ministerial Decree of 3 October, 2007, Assignment of the Priority
Search to the European Patent Office
Editorial comment by Paola A.E. Frassi ............................. 73
ARTICLES
MARINA TAVASSI (*)

PROTECTION OF INTELLECTUAL PROPERTY IN ITALY


Penal protection of Intellectual Property and fight against counterfeit in Italy can be guaranteed, either by the rules contained in Penal Code or by Special Laws.

First of all we have to consider the following rules:

Article 473. (Counterfeit, alteration or use of distinctive signs of original works or industrial products). — Everyone counterfeiting or altering trademarks or distinctive signs, national or foreign, of original works and industrial products, or using them is bound to be punished by detention up to three years and is given a fine up to €2,065.

The same sanction is applied to everyone altering patents, designs or industrial models, both national and foreign, or using them.

The above mentioned dispositions can be applied whenever internal rules or international conventions regarding intellectual property are observed.

Article 474. (Introduction in the Country and commerce of false signs products). — Except for cases provided in the previous article, everyone introducing in the territory of the Country, by the purpose of commercialise, sell, or put into circulation original works with counterfeit trademarks or distinctive signs, national or foreign, is punished by imprisonment up to two years and with a fine up to €2,065.

Provisions of last paragraph of the previous article are enforced.

(*) Judge of the Italian Supreme Court. The text reproduces the contents of her panel contribution to the Congress Enforcement against counterfeiting; comparing the British and the Italian Experience held at Luiss Guido Carli University, Rome, 15 May 2007.
ARTICLE 517. (Selling of false signs industrial products). — Everyone commercialising original works or industrial products with names, marks, distinctive signs, national or foreign, can deceive the purchaser about origin, quality of the work or product, is punished by imprisonment up to one year and fine up to € 20,000.

There is a specific discipline related to guarantee quality, which is considered an aggravating circumstance and provided for by Article 517-bis:

Sanctions provided for by Articles 515, 516, 517 will be increased in case objects of the infringement are alimentary products whose designation of origin or characteristics are protected by the rules in force. The judge, in case of prominence of the criminal act, can dispose the closing of the factory where the criminal act takes place, from a minimum of five days up to a maximum of three months, or the revocation of the licence, the authorisation or similar administrative measures, which allows the commercial activity.

We can easily note the difference of the quoted rules contained in the Penal Code, where Articles 473, 474 are in item 7, which is entitled: « Crimes against public faith », while Articles 517 and 517-bis belong to item 8: « Crimes against industry and commerce ». Such a different collocation is used as a reference criteria to coordinate different rules.

In addition to this, we have to focus on the fact that in Title 13 « Crimes against patrimony », and more specifically « Crimes against patrimony by fraud » (Item 2), an important rule is mentioned, that increases repressive measures against counterfeit (Article 648 deals with receiving stolen goods). The last rule establishes imprisonment from two up to eight years and a fine from € 516 up to € 10,329 for anyone who is not directly involved in the mentioned crime (i.e. theft or counterfeit), but « by the aim of getting benefit, purchases, receives or hides money or goods coming from a crime ». The sanction is up to six years and a fine up to € 516 « whether the fact is light ». This rule can also be effective against counterfeit.

As far as the relationship between Articles 648 and 473 and 474 of Penal Code is concerned, we have to remember that in the past a part of doctrine and jurisprudence excluded the possibility of using all these articles in order to increase the protection of distinctive signs or intellectual property rights.

In June 2001, United Sections of Supreme Court, by pronouncement n. 23427 (decision 9.5-7.6.01, PM, proc. Ndiaye Papa, CED rv. 218870 and 218071) recognised that, in case of counterfeit of signs or marks, receiving of stolen goods may concur with the crime of commerching them as stated in Article 474 Penal Code,
thus avoiding any doubt regarding applicability of that crime in the field of intellectual property.

The conclusion of United Sections of Supreme Court — having realised that receiving stolen goods is much more susceptible of being punished than commerce of false signs products — leads to the impossibility of absorbing the first crime within the second one. The following principles are established:
— receiving of stolen goods concerns behaviours having as object false signs or trademarks goods;
— receiving of stolen goods may concur with commerce of the same ones.

Another important principle stated by the Supreme Court concerns the enforcement of Article 473, asserting trademark falsification, even without a false sign on every single product, according to the main purpose of the law that consists in protecting the trademark and its function of identifying the origin of a certain product.

Article 517 has been interpreted in respect of other rules already examined. Recent jurisprudence established that Article 473 « Counterfeit, alteration, or use of distinctive signs » needs the counterfeit (consisting in total reproduction of a trademark or distinctive signs) or the alteration (consisting in partial reproduction, sufficient to be confused with the original trademark or distinctive sign), while Article 517 does not refer to false, taking care only of ambiguity of signs, marks or indication, illicitly used, able to raise confusion in common consumers.

In a case related to counterfeit items of clothing and various objects of the companies « Ferrari », « Harley Davidson », « Champion » and others, the Supreme Court has confirmed the concurrence of both crimes.

Article 517 has raised some doubts concerning definition of the behaviour in respect to the expression « put into circulation ». The most recent opinion reveals that selling false products — whereas the behaviour has been realised in showing the custom the products with names, trademarks or distinctive signs, able to raise confusion about their origin — integrates an attempt of the crime provided by Article 517 Penal Code. In fact, with regard to the subject effectuating it, clearance of goods constitutes a suitable act to put into circulation the products in question.

2. Protection of « Made in Italy ».

Paragraph 49 of Article 4, Law 24 December 2003 n. 350 (Budget Law 2004) has extended the content of Article 517 Penal
Code, thus including import and export crimes which aim at commercialise products with false origin indication.

Article 517 has been enlarged by paragraph 9 of Article 1 Legislative Decree 14 March 2005, n. 35 (so called « Competition decree », converted by Law 14 May 2005 n. 80) which states that import and export aiming at commercialising products with false origin indication have to be subjected to application of penal sanction provided for by Article 517 (the sanction has been increased to € 20,000 by Article 1, paragraph 10 of the named decree).

Jurisprudence of the Supreme Court, regarding protection of origin indication, has interpreted the above mentioned provisions in the most favourable way for the Italian companies that use « delocalisation » of production, in order to produce their goods in foreign countries.

The decision of 17 February 2005 n. 13712 established that Article 517, although the intervention of Law 350/2003, has the function of protecting the origin of the producer (who is supposed to have the responsibility of creating goods), rather than protecting the origin of a single product.

It is also important to recall that Budget Law 2007 (Law 27 December 2006, n. 296) added to paragraph 49 of Article 4 of Law 350/03 the following words: « [... ] inclusive confusing use of company trademarks, as stated by the discipline of misleading commercial practices ».

After these amendments, the text of paragraph 49 of Article 4 is the following: « Import and export aiming at commercialising products with false origin indication constitute a crime, punished by Article 517 Penal Code ».

The label « made in Italy » on goods and products not coming from Italy, according to the European origin legislation, is considered false indication as well as the use of signs, figures or whatever else may deceive the consumer, making him believe that he is dealing with Italian products even if a foreign origin is indicated, including misleading use of company trademarks as stated by the discipline about misleading commercial practices.

The crimes are committed since clearance of products until their commercialisation.

Misleading information about goods may be amended by removing the signs or figures deceiving the consumer, at infringer’s own expenses. Misleading information about origin of products and goods may be amended by indicating the right origin and removing the label « made in Italy ».
As for the case in question, it is possible to identify two different hypothesis: the first one is related to «false information», which consists in labelling «made in Italy» products and goods not having an Italian origin (for what concerns that matter we have to refer to specific community custom provisions regarding not preferential origin, contained in EC Reg. 2913/92, Community Custom Code, Articles 22-26); the second one is related to «misleading information», which consists in giving products, with or without origin indication, signs or figures or whatever else that can make consumers believe that the mentioned products are from Italy. The last hypothesis (misleading information) is nowadays increased by paragraph 941 of Budget Law 2007 (L. 27 December 2006 - O.J. Enc. n. 244 of 27 December 2006) because of its inclusion of «misleading use of company trademarks according to discipline about misleading commercial practices».

Talking about discipline of misleading commercial practices, comments about the provision contained in Budget Law 2007 have remarked some interpretative problems, particularly concerning the terms «false» and «misleading», which are supposed to refer to EC Directive 2005/29 because of their recall to unfair commercial practices, directive, concerning unfair business-to-consumer commercial practices in the internal marketing, that has not yet been received by the Italian legislation. This Directive aims at repressing unfair commercial practices, put in action throughout deceiving acts or omissions (Article 6 of the same directive states that «a commercial practice shall be regarded as misleading if it contains false information and is therefore untruthful or in any way, including overall presentation, deceives or is likely to deceive the average consumer, even if the information is factually correct, in relation to one or more of the following elements, and in either case causes or is likely to cause him to take a transactional decision that he would not have taken otherwise—[...]»). Geographical or commercial origin of the product is indicated in the list following the provision and it is very relevant in regard of this examination.

In the matter of «Made in Italy» we have to take into consideration a recent decision of Tribunal of Milan, 29 September 2006 (Section X, Judge Lacaita) which excluded that label «Style in Italy», regarding a product (t-shirts), sold in Italy but of foreign origin, in violation of Madrid Agreement (D.P.R. 656/68), could infringe Madrid Treaty and Italian legislation (Article 517 Penal Code, Article 4, paragraph 49 Law 350/2003), observing that the mentioned label could not be considered false as the de-
fendant’s company had designed the models of clothing in Italy, although realizing them in a foreign country. The indication does not mislead the future consumer, because it does not suggest that the product has been manufactured in Italy, it points out that the garment has been designed in our country.

On the contrary, the Supreme Court believed that the simple label « Italy » could fall under provision established by Article 4, paragraph 49.

Decision of 9 November 2005, n. 2648 recognised the crime of selling industrial products with false signs in trading cloths labelled « Italy », manufactured abroad by local workers, even if overviewed by an Italian company and realised according to Italian design and fabrics. In this particular field Italy has a world wide-recognised high level of prestige, guaranteed by the abilities of workers. Hiding such an indication aims at confering the product a greater confidence, thus counselling the purchase ».

In another decision (decision of 19 April 2004, n. 34103, Section III) the Court recognises the crime of selling industrial products with false signs (Article 517 P.C. and Article 4, paragraph 49 Law 350/2003) in selling a product labelled « made in Italy », which could not be considered Italian. The rules (Article 4, paragraph 61, L. 350/03) considered this mark as a protection for goods entirely produced in the Italian territory or similar as stated in the European discipline regarding the origin. In that case, a product made abroad for an Italian fashion producer (who had sent assembly semi-processed according to a pre-defined model), had been commercialised.

The Court stated that it is possible to use the label « made in Italy » only if the product is entirely manufactured in Italy or if its last transformation or an important phase of the fabrication process has taken place in Italy, according to Articles 23 and 24 of EC Reg. 2913/92.

3. **Gross forgery.**

There is a certain jurisprudential orientation of the Suprem Court about forgery, first of all regarding the individuation of the typical object of protection in cases provided for by Article 474: This orietation, after some doubts, reached the conclusion of the irrelevance of gross forgery in case of counterfeiting.

The « chief culprit » was a certain address expressed by some merit pronounciations and some isolated Supreme Court deci-
sions, which have individuated the object of the quoted rule in protection of free determination of the purchaser. In particular, decision of 23 February 2000, n. 2119, Diaw Papa, Section V, raised the « culprit ».

The decision asserted that, in case of selling goods, a counterfeit trademark can deceive the purchaser, just in case prestigious origin of the product is the only qualifying element or anyway the most important one in order to determine, in an average consumer, the willingness to buy the product itself.

On the contrary, whether other elements, such as a relevant poor quality of the product, or a very cheap price, could show the average consumer that the same product can not belong to the company whose trademark is labelled, counterfeit no longer represents a misleading factor on free determination of the purchaser. In the named case the Court believed that poor quality of the forgery was evident in terms of differences of colours, borders and their allocation on the product, seams, graphic, materials used (paperboard rather than leather) thus excluding the presence of conditions to assert the existence of the crime.

This decision of the Court arose many critical remarks.

In the field of commerce, products with false signs or counterfeit trademarks, are considered false when forgery, even if it is partial or imperfect, may deceive third parties, making them doubting on the origin of the product, and therefore creating confusion between label and original product and non-original ones. On the other hand, indictable gross forgery is to be recognised ictu oculi, without requiring any particular investigation, such a gross imitation that cannot deceive anyone.

The very correct interpretation has come throughout an analysis of the juridical good protected under Article 474 P.C. by Section II and III of the Supreme Court, which considered that the named article of Penal Code (« Introduction in the territory of the Country and commerce of false signs products ») was stated to protect public faith, i.e. confidence of citizens in trademarks and distinctive signs, individuating intelligence work or industrial products, granting their circulation, rather than protecting free determination of the purchaser. As a result, it is not possible to speak about impossible crime just in virtue of such a poor quality of forgery and conditions of selling which are unable to deceive purchasers. It is not sufficient that counterfeiting is recognizable by the buyer in virtue of selling manners (cheap price, selling in small or itinerant markets), because forgery attitude to generate
confusion has to be valued referring to the aspect of products in their following use rather than to the purchase moment.

4. **Penal protection of Industrial Property Rights.**

Penal protection of industrial property is also disciplined by the Special Law, the Industrial Property Code, approved by Legislative Decree 10 February 2005 n. 30. In particular the rule dedicated to penal and administrative sanctions (Article 127) is situated in Chapter III of IPC, regarding jurisdictional protection of industrial property rights and most of all in Section I which deals with proceedings dispositions.

Juridical protection, as far as rules of civil and criminal sanctions are concerned, is very important in the discipline of industrial proceedings property. The enforcement, nowadays acquired in Italy, is also on an international level, by enforcement of TRIPS Agreement, or on community level, by EC Directive Enforcement 2004/48, ratified in Italy by Legislative Decree n. 140/06, aiming at the harmonisation of remedies and procedures to protect intellectual property rights.

The competence of civil protection belongs to the IP Specialised Divisions; on the other hand Specialised Divisions haven’t been instituted in Public Prosecution’s Office of Tribunals and Courts of Appeal (that hypothesis was taken into account during the redaction of the Code), neither it was considered drawing criminal competence to Specialised Divisions, nor even under Article 127 (or in case of eventual opposing judgements).

Nevertheless Article 146 « Measures against piracy » — establishing that the Ministry for Productive Activities (through the Prefect of the relevant province, and limited to the municipal territory), and the Mayor may order the administrative seizure of counterfeited products and dispose its detriment (paragraph 2) — states that the President of the Specialised Divisions (referred to under Article 120), in whose territory the piracy has occurred, holds jurisdiction to authorise the disposal (paragraph 3).

It’s possible in the future to get the opportunity to gather competences in the matter of both civil and criminal protection of industrial and intellectual property, in a unique subject (according to all competences charged to the High Commissioner for counterfeit), establishing the institution of some specialised pools inside Prosecution’s Offices.

It’s worth remarking that in the past some specialised teams
have been created next to Prosecution’s Offices (Milan, for example), but the insufficient number of Public Prosecutors has required the abortion of those groups.

Article 127 of IPC « Criminal and administrative penalties » is constituted by three paragraphs; paragraph 1-bis has been added recently. The first paragraph provides for criminal measures, while the second and third ones are dedicated to administrative penalties.

1. Without prejudice to the application of Articles 473 and 474, and 517 of the Criminal Code, anyone who manufactures, sells, exhibits, displays, makes industrial use or introduces into the Country items infringing a valid industrial property title, pursuant to the rules of the present code, shall be punished, at the opposing party’s request, by a fine up to € 1.032.91.

1-bis. Anyone who refuses, without justified reasons, to answer the Judge’s questions, according to Article 121-bis, or gives him false information shall be punished by half-reduced penalties contained in Article 372 of Criminal Code.

(Paragraph contained in Article 18 of Legislative Decree 16 March 2006, n. 140; Article 372 of Criminal Code punishes « false witness » by reclusion from two up to six years).

2. Anyone who applies to a good, untruthful words or indications, intended to create the impression that the product is covered by a patent, industrial design, model or topography or that the trademark is registered, shall be punished by an administrative sanction from € 51.65 to € 516.46.

3. Unless the act constitutes a criminal offence, the use of a registered trademark after the relevant registration has been declared null, when the nullity action determines the unlawfulness of the use of the trademark, or suppresses the trademark of the manufacturer or of the trader from whom he has received the products or the goods for commercial purposes shall be punished with the administrative sanction up to € 2.065.83 even if no third party has been harmed.

A recent Supreme Court decision for the first (and only) time dealt with Article 127 IPC.

Division V, by decision 26 April 2006, n. 19512, defendant Zhu, dealt with the crime under Article 127 Legislative Decree 30/2005. The case in question referred to a counterfeit item similar to the original one and the way it could generate confusion. Talking about seizure, the Court believed that the named crime protected private patrimony only, thus creating different criteria for the ascertainment rather than referring to the rules requested by Criminal Code.

The public interest (public faith and market) takes over the less important private interest. According to Division V, the nature of the rule, dealing with a minor imitation of the mark in order to establish its configurability, does not reveal the simple similarity between the original item and the counterfeit one, capable to generate confusion. For this reason it is necessary to point out
a character of the industrial product, making fabrication and commerce exclusive beyond the trademark.

The case in question deals with the seizure of some imported leather works, similar to original ones, carrying the trademark «Luis Vuitton», which could engender confusion.

It’s worth reproducing the text of the grounds.

Article 127, paragraph 1 of IPC, in order to protect industrial property states, without prejudice to the application of Articles 473, 474 and 517 of Criminal Code, indictable crimes at the opposing party’s request.

All the hypothesis are limited to protection of private patrimony whose ascertainment is grounded on different parameters, residual to those requested by the rules of the Criminal Code, the latter ones taking over the private patrimony into more relevant public interest (public faith and market).

The rule protects the industrial product covered by a property title (i.e. a patent), related to project, structure, components, assembly, manufacture, or whatever else, which can make its fabrication and commerce exclusive beyond the mark. It does not provide a minor hypothesis of trademark imitation, or likelihood of confusion about origin or quality of the goods (Articles 473, 517 Criminal Code), even if they can be symptoms of third party’s industrial property damage.

The Supreme Court stated that the merit Judges are requested to take a new examination of the following points:

a) selling of the goods at the right moment of the seizure has to be verified;

b) in case of fall in what statued in Articles 473, 474, 517 Criminal Code, it is up to the merit Judge to establish imitative capability of a trademark, that means realising whether it is an indictable forgery, or if there is the concrete danger of likelihood of confusion;

c) according to Article 127 of IPC the simple similarity of the items is not sufficient; it is necessary to realise a character of the product related to project, structure, components, assembly, manufacture or whatever else pointing out that its fabrication and commerce are exclusive.

5. **Normative definition of « Piracy »**.

In Italy the so-called Antipiracy Law (Law 16 August 2000 n. 248) amended copyright law. According to Article 144 IPC « in-
fringement and violation of industrial property rights owned by third parties constitute piracy if committed wilfully and systematically ».

The above mentioned definition expressly refers to industrial property rights only, without caring about intellectual property rights (it could not be different because of the Code limits, which does not deal with copyright).

We have to remark that seizure, confiscation of property and bank accounts, order of exhibition of the inherent documents (Article 144-bis IPC, inserted by Legislative Decree 16 March 2006, n. 140) and powers granted to the Ministry for Productive Activities, to the Prefects and Mayors, (Article 146 IPC) may be invoked just in case of Piracy as defined by Article 144 of Industrial Property Code and limited to the matter of industrial property.

Wilfulness has to be proved; it is not enough counterfeit or usurpation evidence, but it is necessary to demonstrate that all violations are systematically carried on. Therefore we have to assume that it is important to show an organisation or at least certain continuity (rather a great continuity) as the adverb » systematically « suggests a constant repetition. Something which reminds us of the slavish imitation provided under Article 2598 n. 1 of Civil Code.

6. Criminal protection of Copyright and the problem of succession of laws.

Copyright is not ruled by the Industrial Property Code. Law 22 April 1941, n. 633 has not been repealed, but it was subjected to various amendments in order to implement the dispositions of EU Law and international conventions Italy adhered to.


Criminal protection of intellectual property is granted by Articles 171-174-quinquies of Copyright Law.

**Article 171.** Without prejudice to the application of Articles 171-bis and 171-ter, whoever reproduces, plays in public, puts into circulation, sells or commercialises, a third party’s work or reveals its contents before it is at public domain, or introduces in the territory of the Country abroad manufactured items in contrast with the Italian law in force shall be punished by a fine from € 51 up to € 2.065.
ARTICLE 171-bis. Whoever puts a protected original work or a part of the same one at public disposal by inserting it in the network, throughout any connections has the possibility to pay a fine before the debate's opening, that means before being convicted, of an amount corresponding to the half part of the maximum fine provided for by the first paragraph regarding the committed crime together with the proceedings expenses. The payment of the fine extinguishes the violation.

ARTICLE 171-ter. (Omissis) Penalty of reclusion from one to four years shall be applied to whomever for profit and not personal use:

a) reproduces, duplicates, transmits, or abusively spreads, sells or anyway puts into commerce, assigns at any title or abusively imports more than fifty copies or samples of copyright and related rights protected works;

a-bis) whoever in violation of Article 16, for profit, communicates to the public a copyright protected original work or a part of the same one giving it to a network, through any connections;

b) whoever exercising an entrepreneurial activity of reproduction, distribution, sale, import of copyright protected works, shall be considered guilty of the crimes provided for under Paragraph 1.

ARTICLE 173. The mentioned measures shall be applied without prejudice to the implementation of rules of Criminal Code and other laws in case the fact constitutes a more serious crime.

It is important to remind also the administrative rules applicable for example to those who use downloaded works.

ARTICLE 174-ter. 1. Whoever illegally uses, including aerially or by cable, duplicates, reproduces wholly or partly, by any process, including by using tools that are suitable to circumvent the technological protection measures, any protected works or materials, or purchases or rents any audiovisual phonographic or computer media that does not comply with the rules of the present law, or equipment, products or components that are suitable to elude technological protection measures, is punished, provided this violation does not add to the crimes covered by Articles 171, 171-bis, 171-ter, 171-quarter, 171-quinquies, 171-sexies, 171-septies, and 171-octies, with administrative fine of € 154 and with the accessory sanctions of the seizure of the material and the publication of the measure in a national newspaper.

2. In case of recidivism, or in serious circumstances linked to the number of infringements or to number of copies that have been purchased or rented, the administrative sanction is increased to € 1032 and the violation is punished with the seizure of the equipment and the material, the publication in two or more national newspapers or in one or more magazines specializing in show business, and, in case of entrepreneurial activity, with the termination of the licencie or the authorisation for the radio-television broadcasting or with the end of the authorisation to exercise the production or commercial activity.

In consideration of the named articles, even referring to the hypotesis contained in the Special Copyright Legislation, the problem of concurrence with the Criminal Code has arisen.

In particular United Sections of Supreme Court dealt with Marino decision in order to solve the contrast about the config-
urability of concurrence between Article 171-ter 1. of Copyright Law and receiving stolen goods.

In the field of copyright and original works protection this decision asserted that concurrence is realizable between the crime of receiving stolen goods (Article 648 Criminal Code) and the crime of trading audiovisual material abusively duplicated (Article 171-ter Copyright Law), when the agent, beyond the purchase of audiovisual, phonographic, computer media that does not comply with the legal rules in force, holds them by the purpose of commercialisation.

The Court remarked that the affirmed principle may be applied to behaviours following the enforcement of Legislative Decree 9 April 2003, n. 68, taking over Article 16 of Law 248/2000 and replacing it by the new text of Article 174-ter of Copyright Law.

The decision established that all purchases of audiovisual, phonographic, computer media that does not comply with the rules in force, happened before the enforcement of Decree 68/2003, even if aiming at commercialisation, integrates the administrative illicit provided for by Article 16 of Law 248/2000, which, in virtue of the principle of speciality of Article 9 Law 689/1981, is always prevalent over the crime of receiving stolen goods.

There is another important decision (149/2007) regarding a case which arises many critical remarks.

We have to consider that the facts object of the case in question dated back to 1999 and it was not a case of P2P (peer to peer) because « decentralised » P2P spread in United States during the year 2000.

The facts were the following. Three students of Turin University, connecting a Web site of a student’s association through the use of a PC and four powerful hard-discs, put on-line (throughout a FTP server system) computer programs and movies at disposal of some selected subjects, who created a network exchange with other material interesting for them. According to Copyright normative in force at that time (it means before the amendments of the named Law 248/2000, also called « Law Urbani ») Turin Judges asserted that a network barter of higher value works is « equivalent to a contract of sale, for a valuable consideration », therefore a « profit » activity, in violation of law and consequently indictable.

On the contrary, decision 149/2007 excluded that exchanging « files » through FTP servers could integrate a « profit » activity or anyway a commercial one (requirement requested by the law in
force in order to establish the possibility to inflict punishment),
assuming that the term « profit » indicates « the purpose of an eco-
monic appreciable gain or patrimony increase to the author ». The
« holding for commercial purposes » stated by Article 171-bis 1. of
Copyright Law, has been defined by the decision as necessarily re-
lated to the subjective element of « entrepreneurial activity ».

The above mentioned principles do not present prejudice to
the application of the rules contained in Article 171 lett. a-bis)
and 171-ter, 2\textsuperscript{nd} paragraph, lett. a-bis) of Copyright Law, even fol-
lowing all reported modifications. The first disposition regards the
application of a fine in case of putting at public disposal a pro-
tected original work, the second one provides for custody together
with a fine, where the behaviour is related to profit purposes. All
rules are recent and still in force, so they couldn’t be applied to
the case in question.

The dispositions approved because of the development of the
so-called P2P (or file-sharing) concern either fraudulent cases or
cases where the activity does not create a gain for the agent, thus
excluding the specific fraud.

The normative actually in force could solve the problem in
different way.

According to Law 128/2004, it is possible to reach some con-
cclusions about the field of application of the new rules.

First of all, the 2\textsuperscript{nd} Paragraph, lett. a-bis) of Article 171-ter
provides a specific case « the networking of original work or part
of it protected by copyright ». This behaviour carried on abusively
or by profit purposes, is no longer allowed since the enforcement
of Article 16 of Copyright Law.

Cases dealing with simple downloading of works do not be-
long to that discipline, which refers to situations where there is
public disposal of classified files, in order to get a profit.

At the end of this examination, it is clear that Italian legal
system is well built in order to provide the judges with the right
instruments, suitable to hit counterfeit, even if the practical ap-
lication does not always succeed in solving an instance that can
have repercussion in our country at a very high level.
GABRIELLA MUSCOLO (*)

THE ITALIAN SYSTEM OF IP CIVIL LITIGATION

* If amazement is the mother of science, the continental lawyer's amazement when he is confronted with the English common law must be one of the most powerful factors in the scientific study of the law... *

R.C. VAN CAENEGEM JUDGES,
LEGISLATORS AND PROFESSORS


1. Introduction: IPR private Enforcement and IP Litigation in Italy: some critical points.

The globalisation of European markets has as a result the transnational character of Intellectual property litigation. In this framework, the harmonisation of legislations and the uniformity of European case law in the field, together with the establishment of a model of European specialised judge are essential features of the effective private enforcement of intellectual property rights.

EC Directive 2004/48 (so called Enforcement Directive) takes into account the current disparities between the systems of the

(*) Judge, District Court-IP Division, Rome. The text reproduces the contents of her panel contribution to the congress Enforcement against counterfeiting: comparing the British and the Italian Experience held at Luiss Guido Carli University, Rome, 15 May 2007.
Member States and only ensure a minimum standard of harmonisation of measures and procedures for protection of IPR in the Internal Market.

The Italian system, especially Articles 117ff of Legislative Decree 30/2005 (the New Italian IP Code), on the protection of industrial property rights, already complies with the enforcement directive. A recent reform of Law 633/41 on Copyright has also been adopted in this aim; but in my essay I am not focusing on this minimum level of approximation of legislations. I would better present procedures and practices of the Italian system of IP litigation, underlining some points that I regard as criticalities for the effectiveness of IPR protection. In this perspective we can try to compare the Italian and the English systems of enforcement against counterfeiting.

2. Settlement of IP conflicts: speeding up the procedures and focusing on urgent and preliminary measures.

In Italy, 24 Specialised Sections (12 in main ordinary District Courts and 12 in main ordinary Courts of Appeal) have been established by Legislative Decree 168/2003, implementing EC Regulations on Commentary Trademark and Commentary design, to deal with IP and Competition Law litigation.

The Specialised Sections are composed by a minimum of 6 professional and skilled judges, sitting as single judges in the investigation phase and in a panel of 3 judges in the decision phase; also a single judge grants preliminary and urgent measures; a panel of three judges, excluding the one who has adopted the measure, decides on the remedies against it.

As provided by Articles 2, 120 and 134 of the IP Code these Sections have competence on actions concerning trademarks and other distinctive signs, geographical indications and denominations of origin, design and models, patents, utility model, layout design of integrated circuits, undisclosed information and new plants varieties. They also have competence on claims regarding unfair competition law and antitrust law.

The main ordinary trial actions provided against the infringement of IPR are the following. The action of declaration of non infringement is frequently used by the Italian litigators, and is also well known as a « torpedo » legal action having as main effect the staying of proceeding started in different countries against counterfeiting.
Even if it may sometimes allow an abuse of the legal process, because of the length of the Italian legal proceedings, it relies on Articles 27 and 28 of Community Regulation 44/2001, as has been stated by ECJ. In addition, the setting up of Specialised Sections for IP litigation, mandated to speed up the settlement of conflicts in the field, can change the state of the affaires on the point.

In most of cases an action for injunction preventing counterfeiting is filed by the IPR owner; the definitive order of no infringement granted by the court is much more effective than others remedies. The main question raised by this kind of actions rely on the enforcement of the order of non facere. With the injunction the court may fix an amount due for any violation, inobservance or in the execution of the provision; unfortunately, in Court practice this provision is not always applied, despite the fact that it increases the standard of effectiveness of the order.

Actions for compensation of damages caused by the infringement of IPR are less frequent in Italian IP litigation; this kind of action always raises the question of calculation of damages and effectiveness of compensation.

Taking into account that the Italian system only provides for compensative damages and not for punitive ones, Article 125 of IP Code introduces three fundamental criteria for calculating damages by counterfeiting: the loss of profits suffered by the IPR owner; the increased profits gained by the infringer; the amount of royalties that the owner would have profited from a licence being granted to the infringer. If damages cannot be calculated otherwise, a lump sum payment may be ordered upon request of the party and on the records of the case.

Publication of the decision may be ordered by the Court in one or several newspapers indicated by the claimant and at the expense of the infringer. This measure complies with the triple aim of compensating damages to the IPR owner, preventing future infringements by competitors and informing consumers about the violation of IPR. It also increases effectiveness of decisions against counterfeiting even if it may be very dangerous in case of abuse of process and shame litigation.

Urgent procedures are statistically very frequent and suitable for settlement of IP disputes; they are characterised by the full freedom of forms, though with respect of the due process of law, by a greater speed of the decision and by stability, that means the granted preliminary measure does not lose its effects if an ordinary action is not filed in a fixed deadline.

The main urgent measures provided by the Italian IP Code
are: the preliminary injunctions preventing the production, commercialisation or utilisation of what constitutes infringement of IPR; the seizure of the infringing goods, of the means employed in the production and of the evidences concerning the alleged violation, even if together with measures able to guarantee the protection of confidential information.

In addition descriptions orders are provided, for collecting urgent evidence on the infringement and preserving them.

Article 134 of IP Code refers to the Legislative Decree 5/2003, regulating special proceeding for disputes arising in company law and extends it to IP and Competition law litigation; these special ordinary trial procedures are characterised by the «privatisation» of the preliminary phase and the case is referred to the Court only for the investigation and the decision making phase; decisions may also be granted in Court hearing.

This model does not seem especially suited to the more effective protection of IPR. There are three reasons for this: first of all, by assigning the preliminary phase to the complete availability of the parties, the judge loses control over the time of the proceeding; secondly, by separating the preliminary phase of the process from the others, the judge is deprived of an essential segment upon which basing his or her own decision; thirdly, the judgement adopted directly in the hearing will be irreconcilable with best settlement of IP disputes, that frequently are hard cases.

3. IP case management: handling technical and economic evidence.

The IP specialist judge is a « judge of the fact ». That means the ascertainment of facts, which are mostly technical facts, plays an essential role in IP case management; in this framework the investigation phase, in both features of collecting and evaluating evidences of IPR infringement and its consequences, acquires the highest importance in trial procedure.

An additional capacity of the specialist judge is required in dealing with facts and proofs for managing an IP case in an effective way, because of the specificity of the questions waved.

First of all, on the point of collecting evidences of infringement and of damages caused by the infringer, the general rule on the burden of the proof, allocated to the claimant, is mitigated by law and case law, considering that parties in IP trials may have asymmetric information on the relevant facts. That may be the case of weaker parties, such as smaller enterprisers or consumers,
but it may also be the case of every IPR owner if evidences are in mere possession of the counterparty.

The peculiar rules on repartition of the burden of proof have a double reason: the need of protection on one side, and the effectiveness of IPR enforcement on the other.

A first example is given by Article 121.2 of IP Code and Article 156-bis of Copyright Law, providing the so called discovery, that is an order granted by the Court, to the alleged infringer or to third parties, of disclosing documents, information and data for the identification of subjects involved in the infringement and implementing Article 6 of the Enforcement Directive (and TRIPS Agreement).

Article 121.5, permitting to a technical expert designated by the judge to receive documents which have not been produced in Court yet, may be another example.

Secondly, on the point of evaluating collected proofs, a specialist IP judge usually handles peculiar sources of evidence: documentary evidence is rare in a case of infringement; evidence given by witnesses is perhaps the most difficult to evaluate; presumptions and circumstantial evidences acquire a great relevance in ascertaining facts; but in most of hard cases surveys and expertises are the favourite tools.

The role of experts in IP trial procedures is a central item in European and international debate on IP case management, and it is closely dependant from the model of judge we would focus on.

Technical evidences are frequent in patent law cases and the most relevant topic to deal with by the expert is the infringement by equivalence; economic and accountancy evidence is mostly used for damages calculation; in any case the use of technical or economic evidence raises several questions that the specialist judge is expected to face.

a) Selecting experts.

The Italian model of IP litigation does not provide non professional judges involved in the composition of specialised sections or otherwise sitting on the bench; the expert is appointed by the Court and is usually expected to present a written expertise; especially in urgent procedures; she/he can also be asked to present oral conclusions. In hard cases even a panel of several experts may be appointed. The parties can appoint private experts, which participate to the Court expert’s investigations.

The main question raised by the appointment of experts is
their selection, which should be made according to the aim of avoiding to make available for Courts expertises the so called « junk science ». The Italian trial procedure provides experts to be usually chosen into a special register established in District Courts, but it is a good practice for the appointing judge to use in addition preliminary tests to verify if the expert is really qualified.

The four main questions the judge ought to ask to herself in selecting her/his experts are the following: 1) does the expert have a degree in the involved field (for instance Economics or technical subjects)? 2) is the expert specialised in a relevant branch of the same field? 3) has the expert published in professional journals? 4) is the expert independent from the parties and parties’ experts?

b) **Guiding experts.**

Once the expert appointed, the judge must face the question of guiding her/him. The best method is to involve the Court expert, and the experts appointed by the parties as well, in case management.

The first step consists in identifying the relevant technical and economic issues the expert has to deal with; it would be a good practice to previously submit the points in question to a due discussion with the Court expert and the parties experts in an hearing devoted to the matter.

The second step is ensuring that the expertise is subject to parties and their experts’ examination; a second hearing can be planned in this aim, in which the judge and the parties could ask questions to the expert for clarifications on economic or technical matters dealt in the case, and the parties could be expected to previously present written notes on the most important topics for discussion.

In this framework an « hot tube approach » may be adopted also in Italian trial procedure: in case of conflicting opinions experts are brought together to debate among themselves in order to clarify the key issues and to identify the reasons of agreements and disagreements.

Guiding the expert is an essential feature in the process of collecting reliable economic or technical evidences. It requires the skilled judge, in case management, to have already clarified to her/himself the main steps of the legal reasoning that will support
the justification of his/her decision: the judge guides the expert and not *vice versa*.

c) *Evaluating and challenging experts’ conclusions.*

The most critical point in handling the economical and technical evidence is evaluating it. Although the expertise becomes highly relevant on evidential grounds, nevertheless it provides the Court with mere ascertainment of technical facts, that will enter the frame of judicial reasoning leading to the final decision, not to be delegated to the expert.

In this framework, evaluating this kind of evidence also means challenging it both in case of Court expert’s conclusions conflicting with parties’ experts ones, and in case of not complete reliability, relevance and consistency of results of the expertise. The leading case on the point is not an Italian but a U.S. one, that is the Daubert case (*Daubert v Merrel Dow Pharmaceuticals, Inc. 509 U.S. 579, 1993*).

Following the guidelines of this case, as a good practice, also the Italian judge must control if these three key conditions have been respected, by applying several tests; first of all, on the point of reliability of the used methodology she/he may ask her/himself the following questions: 1) are the methods or the models used by the expert described with sufficient precision? 2) does the expert justify why she/he has chosen them for the case? 3) have the methods and models already been used in similar cases? 4) have they been published in a refereed scientific journal and is it accepted by the scientific community? 5) have they been or can they be empirically tested? 6) is their error rate known?

Secondly, on the point of relevance the questions may be the following: 1) does the expert’s analysis rely on industry and market specific data or facts? 2) does he/she gather them independently or were they provided by the parties? 3) have some important factors relevant to the industry or the market been ignored by the expert?

Thirdly, on the point of consistency, both internal and external consistency of the expert’s analysis have to been considered, that means the judge must verify if there is a logical relationship between the assumptions, the reasoning and the conclusions of the expert and if the latter are not in contradiction on one hand with known facts about the industry or the market and on the other hand with others proofs collected in trial procedure.
4. **Justification of decisions in IP field: legal reasoning and econometric and scientific models.**

A specialist IP judge have to be aware that justification of decisions in IPR infringement cases presents some peculiarities; the relevance of Economics and Science in IP case law also regards the decision making phase; I wonder which is the use or abuse of econometric and scientific models in legal reasoning.

To take Economics as an example, economic reasoning is a branch of logic; the task of an IP specialised judge, not an economist in Italian system, is nevertheless to have a full control on the economic reasoning made by the expert and on the assessment of economic evidence.

But in the standard approach to economic model validation, there is no way that the judge can say *a priori* if economics assumptions, and their logical implications, are right or wrong and decide on their validity; the judge can only explore the predictive ability of economic models on the basis of standard statistical criteria. Of late an alternative approach has been introduced, especially in antitrust cases, that is the simulation of models.

Because of the lack of precision of economists’ models, the tendency to increase the economic (and efficiency) approach to IP and competition Law conflicts have been recently criticised, because it raises both questions of less predictabilities of decisions and businesses uncertainty.

Finally, in the judicial review of technical or economic analysis, reasonableness and common sense may be the judge’s ultimate weapons...

5. **Conclusions: towards harmonisation of common and civil law systems and procedures in IP Litigation? Towards a model for European specialised IP judges and litigators?**

As a conclusion, I would try to compare the UK common law system and the Italian civil law system face to the problems raised above: on the point of efficiency, the British trial procedure is more concentrated and has a greater speed in comparison with the Italian ordinary trial procedure; the same cannot be affirmed for Italian preliminary and urgent procedures, that can effectively accelerate the settlement of IP conflicts.

But as far as investigation on infringement facts is concerned, concentration of trial procedures does not help the parties in meeting the burden of proof and the judge in collecting and
evaluating evidences if they are highly sophisticated ones, such as technical or economic evidences.

The adversary system and the cross examination of experts witnesses is a better guarantee of due process in the investigation phase, but is not always helpful for evaluating a challengeable scientific evidence, because parties and litigators are not in the best position for identifying the points of conflict between different scientific information.

For both systems we have to take into account that a judge is given a set of rules upon which to decide the case; experts do not generally have a set of rules upon which to decide. So judges are the only usual players with rules and decisions cannot be delegated to experts, sitting or not on the bench.

In my opinion the best problem solving approach may be an increasing harmonisation of procedures and best practices of both systems in the aim of constructing a model of European specialised Judge and litigator and of reaching an higher standard of uniformity and predictability of European case law on IPR counterfeiting.
1. Introductory remarks.

On 30 August 2007, China’s Antimonopoly Law was promulgated at the 29th Meeting of the Standing Committee of National People’s Congress. Since 1994, China has been drafting the Antimonopoly Law, so that the process has taken more than a decade. During that period, as a scholar in the field of competition law, I was honored to lecture on antimonopoly law twice for the Standing Committee of 9th and 10th NPC. Therefore, I was deeply involved in this Act, because I was a participant and a witness of the different legislative steps. My essay consists of three main parts. The first one is dedicated to a brief introduction of the law, the second and the third parts contain my comments on the provisions related to the enforcement authority and the administrative monopoly.

2. Brief introduction on the latest draft.

Generally speaking, Chinese Antimonopoly Law (AML) is a good act with real substance. There are three pillars in respect of substantial law, including provisions prohibiting monopoly agreements, abusive behavior and concentration and merger clearance. The most notable characteristic of the Chinese antimonopoly
draft is the provision prohibiting administrative monopolies, since the most serious restrictions on competition in China doesn’t arise from enterprises, but from governments themselves. Additionally, there are also provisions concerning enforcement authority, procedures and legal liabilities, inclusive of the administrative and civil liabilities.

It is especially worth mentioning, that some good experiences from the U.S., Germany and EU are incorporated in Chinese antimonopoly law, as the « effect doctrine » reflected under Article 2. It states: « This law shall apply to the activities conducted outside of P.R. China that eliminate or have restrictive effects on competition in the domestic markets of P.R. China ». According to Article 46, the undertakings, involved in monopoly agreement, shall be given a mitigated punishment or be exempted from punishment, if they report against the monopolistic conduct and provide important evidence to the Antimonopoly Enforcement Authority. Obviously, that is based on the leniency policy originally from the U.S. Chinese antimonopoly draft absorbed also lots of experiences from Europe. For example, the provision on exemptions of monopoly agreements, the provision on the factors for determining the dominant market position and the provision on the presumptions on dominant market position are obviously based on the experiences from German Cartel Law (GWB).

On the other hand, anyway, there is still lack of progress in some fields. For example, in this act the thresholds for M&A notification are missing. According to the draft submitted by the State Council to the Standing Committee of National People’s Congress (NPC) in 2006, whereas all parties participating in a concentration have a worldwide turnover in the previous year exceeding RMB 12 billion, and one of the parties has a total turnover in China in previous year exceeding RMB 800 million, the undertakings of the concentration shall notify the Antimonopoly Law Enforcement Authority before the transaction. This notification standard was unreasonable, because there was no consideration whether the notified merger or acquisition has a substantial effect on Chinese domestic market. Because of the hot controversy over the thresholds of the M&A notification among the members of the Standing Committee of NPC, in the adopted Antimonopoly Law there isn’t a real standard for M&A notification.

Article 21 states only that if a concentration meets the relevant thresholds for notification as stipulated by the State Council, the undertaking shall file a notification to the Antimonopoly Authority. I believe that the definite thresholds will be set up by
the State Council before the law comes into force on 1 August 2008. Additionally, from a general point of view, there are at least two serious problems concerning the enforcement authority and the administrative monopoly.

3. **Lack of a unified Antimonopoly Authority.**

   Even though enactment of an antimonopoly law should be deemed as one of the cornerstones of the pro-market economic reform in China, the simple adoption of it isn’t sufficient for China to retain a sound competition order and to promote a pro-market reform.

   Taking into account the historical experiences, I think that establishing an effective enforcement authority is a critical challenge and the most important precondition for the effectiveness of Chinese antimonopoly law. According to these considerations, I am very concerned about the enforcement authority provided by the law.

   ***Firstly, there isn’t a provision on the establishment of a unified Enforcement Authority.***

   Article 10 states that the Antimonopoly Enforcement Authority empowered by the State Council is responsible for the enforcement of the antimonopoly law. But, according to the explanation given by the State Council, the National Development and Reform Commission (NDRC), the State Administration of Industry and Commerce (SAIC) and the Ministry of Commerce (MOFCOM) have parallel jurisdiction over anticompetitive behaviors. In my opinion, three agencies fulfilling functions for antimonopoly enforcement, it is not only a waste of enforcement resources, but it leads to inevitable conflicts and frictions among them. Furthermore, these three agencies are under the leadership of SAIC, MOFCOM and in particular of NDRC, which is the most important policy maker in China. For all the above reasons, I don’t believe that the enforcement agency under its leadership could ever be independent.

   ***Secondly, the antimonopoly authority has almost no jurisdiction over the regulated sectors.***

   According to the draft submitted by the State Council, this law doesn’t apply to anticompetitive conducts in the regulated sectors, unless other relevant laws or administrative regulations provide no special provisions on such conducts, or relevant regulators fail to investigate or handle the monopolistic conducts pro-
hibited by other laws. In view of the doctrine of « regulatory capture », taking into consideration the state-owned economy in these regulated sectors, it is reasonable to doubt whether the regulators are able to be neutral and independent when they are facing disputes between consumers and business operators in the sectors controlled by themselves. Additionally, compared with the antimonopoly authority, the regulators usually aren’t aware of the competition policy. In my opinion, the antimonopoly authority should be empowered to deal with the monopolistic conducts forbidden by law in the regulated sectors, even though it would be a non-absolute power, in this regard.

In the finally promulgated Antimonopoly Law, there is no provision on the relationship between antimonopoly authority and regulators. According to the explanation given by the Standing Committee of NPC, the State Council is in charge to determine it; therefore, this issue has not been resolved.

4. Enforcement mechanism for administrative monopoly.

Chinese administrative monopoly refers to the acts of the governments and their subordinate agencies that abuse administrative power to restrict competition. For instance, local governments refuse to issue business licenses to firms that trade commodities produced in other regions. As far as the departmental monopoly, the petrol products market is an example. I.e. some governmental departments issued documents to forbid any other companies to wholesale or retail petrol products except for SinoChem and PetroChina. This phenomenon has been criticized as « doing business by abusing administrative power », and it is considered the most serious source of corruption in today’s China.

Even common people in China hate administrative monopolies because they restrict competition seriously, but how regulating such an administrative monopoly, is still a hard nut to crack.

According to the existing administrative law, only governmental organs at a higher level have the authority to supervise or inspect the governmental organs at a lower level. In particular, even the People’s Court hasn’t the authority to handle the so-called abstractive actions, i.e., local or departmental regulations or other legal documents issued by government or its subordinate department. Taking into account the above consideration, Article 51 of the Antimonopoly Law provides that the administrative monopoly by government or its subordinate department is not within
the jurisdiction of the antimonopoly agency, but it is controlled by government itself and its subordinate departments at higher level.

In my opinion, there are at least two reasons why the governmental organs at higher level can not fulfill the responsibility to supervise or inspect the administrative restrictions created by the governmental organs at lower level.

Firstly, administrative restrictions on competition reflect discriminatory treatment, and behind discrimination, always exist significant economic advantages for local enterprises or large state-owned companies. This situation makes it difficult for the governmental organs at higher level to keep a neutral attitude in disputes among the governmental organs at lower level and the non-state owned enterprises or the competitors from another region.

Secondly, the so-called « higher-level organs » are neither specified nor defined agencies, therefore employed officials normally don’t have a good understanding of antimonopoly law.

5. Final remarks.

In short, all of the issues mentioned above are critical and need to be focused on. On the one hand, without a unified antimonopoly authority, the law will hardly work. On the other hand, without effective prohibition of administrative monopoly, this legislative intervention will be not very practical. But I am still confident that China is moving forward in the direction of pro-market reform. I am convinced that China’s growing and developing economy requires a strong watchdog to keep market order, and economic globalization is the important motive force of our lawmaker to establish an effective antimonopoly system in the near future.
JIANJUN GUO (*)

PROTECTION AND ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS: A WTO CASE AGAINST CHINA


1. Introduction.

The ongoing globalization, facilitated by the WTO multilateral trading system, has enabled developing countries, based on their cheap labor force and huge growing potential, to challenge the leading position of western nations which now more and more rely on power of capital, quality of service, and advantage of tech-

(*) LL.M in Intellectual Property, Turin Law School and WIPO (2005); Special thanks to Professor Marco Ricolfi of Turin Law School who ushered me into the wonderful world of intellectual property law and encourages me to continue my research.
nology to counterbalance the impact. Against this background, protection and enforcement of intellectual property rights has always been the powder flask, especially when it comes to China, a country the growing economic and trading power of which causes unease among the world’s leading nations. Europeans see China as « a globalization scare story » (1), U.S. Trade Representative (USTR) believes that « the scale and rate of growth of the Chinese expansion are unprecedented in the history of global trade, as is the entry into the global economy of a country as large as China » (2).

Pressure from outside, fuelled by China’s surging trade surplus and foreign reserves (3) and combined with toughened trade defense instruments against China (4), are mounting with regard to IPR protection and enforcement, along with other requirements such as the re-evaluation of China’s currency RMB, transparency in rule-making (5), liberalisation of investment (6), access


(2) U.S.-China trade relations: entering a new phase of greater accountability and enforcement, top-to-bottom review, United States Trade Representative, February 2006, at 10.

(3) According to statistics of the Ministry of Commerce of China, trade surplus of China in 2006 totalled 177.5 billion USD, after Germany’s 210 billion and ahead of Japan’s 69.3 billion; at the end of the first quarter 2007, China’s foreign reserve exceeded 1.2 trillion USD. Over 50% of trade surplus derives from exports made by companies with foreign investments in China and it is said that while trade surplus rests with China, real benefits go to western companies. The Policy Paper on EU-China Trade and Investment entitled Competition and Partnership, issued by the European Commission in October 2006, indicates that « the majority of China’s exports focus on processed goods with limited added value [...] a significant part of the value added of products “made in China” accrues to European companies ».

(4) China is the biggest target of anti-dumping investigations between 1995-2006 with 539 cases against it, ahead of the EU and its member states [501 cases] and Korea [227 cases]. In 2006 alone, China was the target of 70 anti-dumping cases, far ahead of Chinese Taiwan’s 12 and USA’s 10, CLIFF STEVENSON, Global Trade Protection Report 2007: DATA & ANALYSIS, 2 April 2007.

(5) So far, China has made progress in this regard. In European Business in China Position Paper 2006/2007, the European Chamber to China acknowledges and welcomes steps China has taken in improving transparency, e.g. by allowing free access to trademark registry data, by inviting comment for the new Patent Examination Guidance, and by allowing the foreign community to participate in and comment on the third Patent Law Revision. While rule making is one aspect of transparency, Article 63 of the TRIPS Agreement also requires another kind of transparency: « final judicial decisions and administrative rulings [...] shall be published ». In its 2006 Special 301 Report, USTR alleged that « lack of transparent information on IPR infringement levels and enforcement activities in China continues to be a problem ».

(6) National investment policies are far from being harmonised at multilateral
to government procurement (7), abolition of WTO-inconsistent subsidies (8), state intervention (9), access to raw materials (10), high-leveled labour standards, corporate social responsibility, more responsibility to the multilateral trading system, commitment to global warming and protection of environment and most recently product safety.

Recently, some US Congressmen threatened to stop Normal Trade Relations with China and subject it back to yearly debates, as US Congress did before China’s accession to WTO in 2001, even if this process is widely believed illegal under the WTO rules. Other measures such as a punitive tariff of 27.5% on the top of normal tariffs for Chinese goods exported to The United States, on the grounds that China is believed to deliberately undervalue

level. The WTO Agreement on Trade Related Investment Measures [TRIMS] applies to investment measures related to trade in goods only [Article 1 of the TRIMS Agreement], and liberalisation of investment in service sector, e.g. banking, insurance, accounting etc. or in strategic sectors such as steel, petrol, automobile, is subject to, inter alia, bilateral or regional negotiations for preferential arrangements. Moreover, in the context of globalisation, attempts by foreign interests to buy large companies at the forefront of a nation’s commercial life often arouse strong protectionist feelings.


Thanks to its opening-up policy, China has become a main destination for foreign direct investments. According to statistics of the Ministry of Commerce of China, accumulated foreign direct investments to China amounted to 733.2 billion USD at the end of June 2007. These investments concentrate in manufacturing sector, making China « the world factory ».


(8) China - Certain Measures Granting Refunds, Reductions or Exemptions from Taxes and Other Payments, request for WTO consultation made by U.S. on 2 February 2007, Dispute DS558. It is the first subsidies case against China in the WTO.

(9) This is one of the reasons why the U.S. and the EU do not yet recognize China’s Market Economy Status [MES]. The issue is widely believed to be the sequela of the Cold War when economies outside the western camp were viewed with bias. In anti-dumping cases, the importing WTO member may use a methodology that is not based on a strict comparison with domestic prices or costs of a country that is not believed to be a market economy. In other words, in case a given Chinese product is subject to an antidumping investigation, the price or cost of an Indian product may be used in order to determine the dumping margin, on the basis of Article 15(a) of the Protocol on the Accession of the People’s Republic of China into WTO, which shall expire 15 years after China’s accession [2016].

(10) China is dominant producer of rare earth, phosphorous, fluoresceine; coke and raw silk, the exports of which, pursuant to Article 8 [Import and Export Licensing] of the Protocol on the Accession of the People’s Republic of China into WTO, are subject to export licensing.
RMB, have been contemplated. Acting on their own, some Chinese scholars riposted that Beijing might threaten to sell its holdings of $407 billion’s worth of U.S. short term financial assets in the event of U.S. imposed trade sanctions.

Against this confrontational background, the utilisation of WTO procedures by the U.S. against China in IPR issues has been predicted for some time.

USTR threatened in its 2005 Special 301 Report to « utilise WTO procedures to bring China into compliance with its WTO TRIPS obligations, particularly those requiring a criminal IPR enforcement system with deterrent effect »; in its 2006 Special 301 Report, USTR warned to « step up consideration of WTO dispute settlement options ».

The other shoe dropped on 9 April 2007, when U.S. Trade Representative Susan C. Schwab announced that the United States would make two requests the next day for World Trade Organization dispute settlement consultations with the People’s Republic of China (11): one over deficiencies in China’s legal regime for protecting and enforcing copyrights and trademarks on a wide range of products (12), and the other over China’s barriers to trade in books, music, videos and movies (13), products which are believed to be favourite targets for IPR pirates, and USTR alleged that the legal obstacles standing between these legitimate products and consumers in China keep legitimate copyrighted products from competing effectively in the Chinese marketplace, give IPR pirates the upper hand in the Chinese market and thus worsen the problems of IPR piracy and counterfeiting in China (14).

This paper will concentrate on the first case which is more related to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement). The second case concerns China’s obligations under its WTO Accession Protocol and under the WTO General Agreement on Trade in Services (GATS Agreement), and will not be discussed by this paper.

(14) Supra at note 11.
2. **Background of IPR protection and enforcement in China.**

When the *Paris Convention for the Protection of Industrial Property* (Paris Convention) was signed in 1883 and the *Berne Convention for the protection of Literary and Artistic Works* (Berne Convention) in 1886, China’s last dynasty [Qing] was caught between foreign invasions and peasants’ revolts, followed by a revolution which dethroned China’s last Emperor PUYI in 1911. Subsequent years of anarchy, followed by two World Wars and then civil wars, plagued China until 1949 when the People’s Republic of China was founded by Chairman Mao.

The legal system as such for the protection and enforcement of intellectual property rights took form in 1979, almost a century after the adoption of the Paris Convention and the Berne Convention, when China decided to reform its centralised economy and open up to the rest of the world. In the 1980s and 90s China adhered to a number of international conventions and treaties of intellectual property (15), based on which it has set up a sound legal framework (16) to protect and enforce IPRs.

In the last three decades, China made enormous progress in developing a modern system of intellectual property law; its achievement may be unprecedented. This is not just a matter of the law as written on the statute books, but also in the impressive group of Chinese leaders, officials, business people, journalists, and academics who understand, support, and advocate on behalf of IP law (17).

China adopts a «dual-track» approach with regard to the enforcement of IPRs, *i.e.* administrative and judicial enforcement. In case of IPR infringement, the right holder may either file a lawsuit or apply to competent authorities for administrative measures. Chinese laws contain detailed provisions regarding the division of labour among administrative authorities, civil courts and criminal courts for the enforcement of IPRs. Article 57 of the Chinese Patent Law provides, *inter alia*:

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Where a dispute arises as a result of the exploitation of a patent without the authorization of the patentee [...], the patentee or any interested party may institute legal proceedings in the people’s court, or request the administrative authority for patent affairs to handle the matter.

Article 58 of the Patent Law further provides: «Where the infringement constitutes a crime, he [the infringer] shall be prosecuted for his criminal liability». Similar provisions can also be found in the Chinese Trademark Law, the Chinese Copyright Law and the Regulations on Customs Protection of Intellectual Property Rights.

2.1. **Administrative enforcement.**

Administrative enforcement is deeply rooted in China’s past of centralised economy when the government regulated everything. Article 1 of the TRIPS Agreement, by providing that «Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice», can be understood as meaning that administrative enforcement of IPRs is not prohibited under the Agreement.

Chinese laws and regulations contain substantive provisions regarding the administrative enforcement of IPRs. Article 57 of the Chinese Patent Law provides, *inter alia*, the administrative authority «may order the infringer to stop the infringing act immediately», «may approach the people’s court for compulsory execution [of its order]» (18). Article 54 of the Trademark Law provides «The administrative authority for industry and commerce has the power to investigate and handle any act of infringement of the exclusive right to use a registered trademark according to law». Article 47 of the Copyright Law provides, *inter alia*:

Anyone who commits any of the following acts of infringement [...] may be subjected by a copyright administration department to such administrative penalties

as ceasing the infringing act, confiscating unlawful income from the act, confiscating
and destroying infringing reproductions and imposing a fine; where the circumstances
are serious, the copyright administration department may also confiscate the materi-
als, tools, and equipment mainly used for making the infringing reproductions.

The structure of administrative authorities is organised accordingly in order to implement law. Authorities under the State Council or local governments can establish patent administration organs. The National Copyright Administration is set up at China’s central level and local administrations in this regard can also be found in various provinces, municipalities and autonomous regions, and even in certain big cities. Trademark management organs are included in the Administrations for Industry and Commerce at various levels from state, province, city (prefecture) to county. In June 1995, China General Administration of Customs set up a Border Protection Division for IP protection and local customs administrations throughout China also designated teams and contact persons responsible for IPR protection within their own areas (19).

The administrative enforcement as such is believed to be a proper instrument to address IPR misdemeanors: it is time-saving, cost-effective in comparison with civil actions and can be taken ex officio by administrative authorities. U.S. recognised in its 2006 Special 301 Report that « the United States is encouraged that administrative authorities in a few parts of China, notably Shanghai, appeared to show greater willingness to take ex officio enforcement action without the need for a complain ».

But complains are often heard about non-deterrent effect of and over-reliance on administrative enforcement. U.S. believes that « China suffers from chronic over-reliance on toothless administrative enforcement and underutilisation of criminal remedies », « more than 99 percent of copyright and trademark cases were channeled in 2004 into its administrative systems [...] administrative fines are too low to provide a deterrent, and as a result, infringers continue to consider administrative seizures and fines as a cost of doing business » (20).

Deficiency in China’s administrative enforcement is partly caused by local protectionism, like a Chinese proverb goes: « The

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(20) 2006 Special 301 Report, USTR.
mountains are high and the Emperor far away». Enforcement of law in such a large country is always a problem for the central government, and similar problems may also exist in many other countries.

IPRs are recognised as private rights in the preamble of the TRIPS Agreement, and civil courts are deemed to be the best places to enforce them. But a structural change in this direction, i.e. abolition of the « dual-track » approach by China, is not easy because it touches issues like government’s functions, the administrative structure and its interaction with the judicial system.

2.2. Civil enforcement.

Civil actions for patent, copyright, and trademark infringement in China are first brought before People’s Intermediate Courts (21). In some big cities, 1-2 basic courts can be designated by the High Court for that area to hear trademark civil cases, upon the approval of the Supreme People’s Court (22). High People’s Courts are generally appellate courts, but can, per some regulations, be courts of first instance for some types of cases. The hierarchy of courts in China has the Supreme People’s Court at the top with 31 High People’s Court directly beneath the Supreme Court. Immediately underneath the High Courts are 346 Intermediate People’s Courts with 3,135 Basic People’s Courts (23).

During the process of IPR litigation, a court can take such temporary measures as preservation of evidence or property. In case of torts, the people’s court, in accordance with the law, can order infringement cessation, negative influence elimination, apol-

(21) Pursuant to Article 2 of Several Provisions of the Supreme People’s Court on Issues Concerning Applicable Laws to the Trial of Patent Disputes (2001), patent disputes shall be first heard by People’s Intermediate Courts at capitals of provinces, autonomous regions and municipalities or by those designated by the Supreme People’s Court. According to the Interpretation of the Supreme People’s Court on Relevant Issues Concerning the Scope of Jurisdiction and of the Scope of Application of Laws for Hearing Trademark Cases (2002) and the Interpretation of the Supreme People’s Court Concerning the Application of Laws in the Trial of Civil Disputes over Copyright (2002), trademark and copyright disputes shall be first heard by courts not lower than Intermediate Courts.

(22) Pursuant to Interpretation of the Supreme People’s Court on Relevant Issues Concerning the Scope of Jurisdiction and of the Scope of Application of Laws for Hearing Trademark Cases (2002).

(23) Information from the Supreme People’s Court of China.
ogy, loss compensation, or give the infringer such punishments as illegal income confiscation, fines, and detention (24).

Priority is always granted to « out of court » settlement between the parties and a judge in a civil court may mediate such consultations. Article 85 of China’s Civil Procedure law provides that:

In the trial of civil cases, the people’s court shall distinguish between right and wrong on the basis of the facts being clear and conduct conciliation between the parties on a voluntary basis.

Furthermore, Article 86 of the same law provides that:

When a people’s court conducts conciliation, a single judge or a collegial panel may preside over it. Conciliation shall be conducted on the spot as much as possible.

Article 54 the Chinese Patent Law provides that « a dispute over copyright may be settled through mediation »; Article 57 provides, *inter alia*:

Where a dispute arises as a result of the exploitation of a patent without the authorisation of the patentee, that is, the infringement of the patent right of the patentee, it shall be settled through consultation by the parties.

The 2006 Special 301 Report stated that « in part because of the ineffectiveness of the administrative and criminal enforcement systems in China, there has been an increase in the number of civil actions seeking monetary damages or injunctive relief [...] while seeing some success, the United States continues to hear complaints of a lack of consistent, uniform and fair enforcement of China’s IPR laws and regulations in the civil courts ».

To date, criminal, civil and administrative litigations over IPRs are brought before different courts, *i.e.* criminal courts, civil courts and administrative courts within High Courts or Intermediate Courts. This mechanism may explain to some extent the « lack of consistent, uniform enforcement of IPR laws and regulations in the civil courts ». The creation of one single court for all IPR actions, together with an exclusive IPR Court of Appeal, could be a good solution for China in the future.

(24) *Supra* at note 19.
2.3. **Criminal enforcement.**

In the event of an intellectual property crime, a criminal can be sentenced to a seven-year imprisonment as maximum penalty, as prescribed by articles 213 through 220 of the Criminal Law of the People’s Republic of China (25).

Unlike civil actions, IPR crimes are first heard by Basic Courts instead of Intermediate Courts which, pursuant to Article 20 of the Criminal Litigation Law, only hear criminal felonies involving national security, life imprisonment and capital penalty, or cases involving foreign offenders. While this approach is not contrary to the purpose of criminal law which should predominantly combat crimes offending national security or personal safety in stead of offenses to property rights, the fact that IPR crimes are heard by Basic Courts and civil actions by Intermediate Courts may cause inconsistent application of law.

The issue of criminal thresholds is a key concern of western nations and will be discussed below.

3. **Targets of the consultations.**

The TRIPS disputes — that have culminated in WTO decisions — have, on the whole, been decisions about the statutory law of WTO Members, *i.e.* how a country’s statutory law fails to provide the proper term of patent protection or provides a statutory exception to copyright protection that unreasonably prejudices the legitimate expectations of copyright owners (26). As long expected, the WTO action by the U.S. does not attempt to cite China for failing to enforce its IPR laws. Rather, the case aims at getting China to make sure its laws are *on their face* or *on the book*, as opposed to *on the ground*, consistent with the WTO rules, which has always been seen as much easier to sustain (27).

It is also worth noting that this is the same approach the U.S. followed in the subsidies case against China in the WTO in February (28). In that case, the U.S. cited several laws, rules and

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(26) *Supra* at note 17.


(28) *Id.*
policy circulars that seem to violate China’s commitment to eliminate all export-contingent and import-substitution subsidies. USTR believes that this approach should work in the IPR cases, since it would force China to more frequently pursue criminal enforcement.

According to US written request which was also forwarded to the WTO secretariat (29), the following Chinese laws and regulations will be subject to consultations.


United States IPR consultation request focuses on provisions of Chinese law that create a substantial «safe harbour» for wholesalers and retailers who distribute or sell pirated and counterfeiting products in China (30). The Chinese Criminal Law is believed to create such «a substantial safe harbour» because of its section 7 [entitled Crime of IPRs, Articles 213 through 220] which contains the following articles:

Articles 213, 214 and 215 describe certain acts of trademark counterfeiting that may be subject to criminal procedures and penalties by using expressions like, «if the case is of a serious nature» or «cases of a more serious nature» [Article 213], «relatively large sales volume» or «large sales volume» [Article 214], «cases of a serious nature» or «cases of a especially serious nature» [Article 215] (31).

Concerning acts of copyright piracy, Articles 217 and 218 describe certain acts that may be subject to criminal procedures and penalties by using expression such as, «when there are other serious circumstances» or «when there are other particularly serious circumstances» [Article 217], «a huge amount of illicit income» [Article 218] (32).

Article 220 provides the availability of procedures and penalties when the crimes described in Articles 213 through 219 are committed by a «unit», as opposed to individuals, and is believed to be an invitation to organised crime. Article 219 deals with trade secrets and does not contain similar expressions found in the fore-

(29) Available at: http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds362_e.htm.
(30) Supra at note 11.
(32) Id.
going articles. As a result, USTR press release mentioned nothing about Article 219.

Given China’s civil law tradition based on which laws are generally made in broad terms, the Criminal Law itself does not define the terms «serious», «especially serious», «relatively large» and «huge» in Articles 213 through 220, and two judicial interpretations, one in 2004 the other 2007, were issued to address these issues.

3.2. The Judicial Interpretations.

a) The 2004 Judicial Interpretation.

A judicial interpretation is believed to be a soft law, i.e. guidance or recommendation issued by the Supreme People’s Court and the Supreme People’s Procuratorate and observed by courts and procuratorates throughout China. The first judicial interpretation for criminal enforcement of IPRs was made in December 2004 (33) in order to give exact meaning to the terms «serious», «especially serious», «relatively large» and «huge» as used in Articles 213 through 219 of the Criminal Law.

The 2004 Judicial Interpretation makes an IPR dispute criminally actionable by instituting numerical thresholds in respect of the amount of illegal business volume, amount of sales, direct economic loss, illegal gains, and quantity of counterfeited or pirated pieces.

The statutory criminal threshold for value of goods is RMB 50,000 — approx US$ 6,000 for individual infringers and RMB 150,000 — approx US$ 18,000 for corporate infringers. The value of goods is based on the price at which the counterfeit goods are actually traded, or the price at which they are offered for sale (marketed). If no information on price offered or traded is available, then the calculation may be based on the median price on the market. Using the amount of illegal income may, in some cases, be more favourable to brand owners. The criminal threshold for illegal income (profit) is RMB 30,000, approx US$ 4,000.

«Multi-infringers», who have counterfeited more than two differ-

ent trademarks, may be prosecuted if the illegal income is over RMB 20,000, approx US$ 2,500. Additionally, an infringement may be criminally actionable if it involves over 20,000 counterfeit labels or trademark representations, or over 1,000 pieces of pirated copies.

The 2004 Judicial Interpretation was a response to outside complaints that « China suffers from [...] underutilisation of criminal remedies » (34) and it did constitute a significant move further down the road for IPR enforcement in that it has increased penalties for IPR violations by subjecting a greater range of violations to criminal investigation such as import and export stages, storage, distribution of infringing products, online piracy and sound recordings. Since the adoption of the 2004 Judicial Interpretation, more and more cases have been transferred by administrative authorities to criminal courts which now begin to complain about insufficient staff.

However, expressions in the 2004 Judicial Interpretation like « other circumstances of a serious nature [e.g. Article 1.3] », « other circumstances of an especially serious nature [Article 1.3-bis] » leave the expressions in the Criminal Law like « cases of a serious nature » or « cases of a especially serious nature » open to further interpretation. Moreover, Article 12 that authorises the use of the price of infringing goods in stead of that of genuine goods for the computation of illegal business volume, and Article 15 that provides the criminal thresholds are three times higher for corporate entities than for individuals, have inflicted vehement criticism from outside.

U.S. alleged that « the partial reforms reflected in the December 2004 measure did not go far enough; the mandated thresholds remain so high that they make it impossible as a matter of law to prosecute many commercial infringers, especially at the retail level. The problem is made worse by China’s reliance on values of infringing goods rather than genuine products, as the default rule for determining whether threshold values are met. China has thus maintained a legal “safe harbor” that protects a large group of commercial infringers and operates to deprive the criminal enforcement authorities of needed information regarding the source of counterfeit and pirated goods » (35).

(34) Supra at note 20.
(35) Id.
b) The 2007 Judicial Interpretation.

On 5 April 2007, a few days before USTR requested WTO consultation, the Supreme People’s Court and the Supreme People’s Procuratorate promulgated the Interpretation on Several Issues of Concrete Application of Laws in Handling Criminal Cases of Intellectual Property Infringement (36) [The 2007 Judicial Interpretation], which functions as a supplement to the 2004 Judicial Interpretation. If any provision of the 2007 Judicial Interpretation conflicts with the 2004 Interpretation, the former will be taken as authentic (37).

The 2007 JI is believed to be more stringent than the 2004 JI in that it has lowered threshold for criminal prosecution of piracy. Expressions in Article 5 of the 2004 Judicial Interpretation, i.e. «other circumstances of a serious nature», «other circumstances of an especially serious nature» are given exact meaning in the 2007 Judicial Interpretation. Reproduction and/or distribution of more than 500 illegal copies of written, musical, movie, televised, and video works for the pursuit of making profits without the permission of copyright owners fall under the definition of «other circumstances of a serious nature» as provided in Article 217 of the Chinese Criminal Law, down from 1,000 copies provide by Article 5.2 of the 2004 Judicial Interpretation; if the amount of illegal copies exceeds 2,500 pieces, down from 5,000 in Article 5.2-bis of the 2004 Judicial Interpretation, the act of reproduction and/or distribution falls under the definition of «other circumstances of an especially serious nature» as provided in Article 217 of the Chinese Criminal Law (38).

Moreover, the expression «reproduction-distribution» in Article 217 of the Criminal Law is defined in the 2007 Judicial Interpretation as including the acts of reproducing, or distributing, or both reproducing and distributing. This step makes the concern of USTR that «the [Criminal] Law appears that someone reproduces a copyrighted work without the owner’s permission is not subject to criminal liability unless he also distribute the pirated work» (39) unfounded. USTR recognised that «a judicial interpretation that appears late last week appears designed to address this

(37) See Article 7 of the 2007 Judicial Interpretation.
(38) Article 1 of the 2007 Judicial Interpretation.
(39) Supra at note 11.
problem. The United States welcomes this potential development and looks forward to discussing it with China during WTO consultations (40).

In order to challenge the Criminal Law and its two Interpretations in the WTO, U.S. will largely depend on Articles 41 and 61 of the TRIPS Agreement which provide respectively:

**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.

**ARTICLE 61.** Members shall provide for criminal procedures and penalties to be applied at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale. Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity.

### 3.3. Copyright Law Provisions.

USTR alleged in 9 April press release that the Chinese Copyright Law appears to deny copyright protection for works poised to enter the market but awaiting Chinese censorship approval. « It appears that Chinese copyright law provides the copyright holder with no right to complain about copyright infringement [including illegal/infringing copies and unauthorised translations] before censorship approval is granted. » USTR believes immediate availability of copyright protection is critical for new products entering a market, and it appears that copyright protection is available immediately to Chinese works (41).

**Article 4 of the Chinese Copyright Law** provides that:

Works the publication or distribution of which is prohibited by law shall not be protected by this Law. Copyright owners, in exercising their copyright, shall not violate the Constitution or laws or prejudice the public interests.

The written request for consultation (42) cited Article 5.1 of the Berne Convention [1971] which requires that foreign authors of protected works shall enjoy all the rights granted to domestic au-

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(40) Id.
(41) Id.
(42) Supra at note 29.
thors, as well as all the rights specially granted by *Berne Convention* (43). Based on USTR allegation that « it appears that copyright protection is available immediately to Chinese works » while copyright protection for foreign works is subject to censorship approval, Article 3.1 of the TRIPS Agreement concerning national treatment will also be at issue. Furthermore, Article 14 of the TRIPS Agreement concerning the related rights was also invoked as U.S. alleged that the rights of performers and producers of sound recordings can also be impaired or nullified during the period of any pre-publication or pre-distribution prohibition.

In addition to the copyright law, a bundle of other Chinese laws and regulations, such as the Administrative Regulation on Audiovisual Products, the Administrative Regulation on Publishing, Measures for the Administrations of Import of Audio and Video Products, the Procedures for Examination and Approval for Publishing Finished Items Licensed by a Foreign Copyrights Owner, are also subject to consultations (44).


USTR consultation request also focuses on rules for disposal of IPR infringement goods seized by Chinese customs authorities. USTR believes that those rules appear to permit goods to be released into commerce following the removal of fake labels or other infringing features, when WTO rules dictate that these goods normally should be kept out of the marketplace altogether (46).

Article 27 of The Regulation for Customs Protection of IPRs of China stipulates as follows:

> Where the confiscated goods infringing an intellectual property right can be used for public welfare projects, the Customs shall hand such goods over the relevant public welfare for use in public welfare projects. Where the holder of the intellectual property right intends to purchase the goods, the Customs may have such goods assigned to the holder with compensation. Where either the confiscated goods can not be used for public welfare projects or the holder has no intention to purchase the goods, the Customs may have such goods auctioned according to law after removing

(43) TRIPS Agreement Article 9.1 requires all WTO Members to comply with Articles 1 through 21 of the Berne Convention.

(44) *Supra* at note 29.


(46) *Supra* at note 11.
their infringing features; where the infringing features can not be removed, the Customs shall destroy the goods.

Chapter V of the Implementing Rules of the Customs Regulation, adopted on the basis of the Customs Protection of IPRs contains detailed provisions [Articles 30 through 33] for disposal of goods and relevant expenses.

There are two Articles in the TRIPS Agreement that can be relied on by U.S., namely Articles 46 and 59 which provide:

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 [...] or 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.

Article 59. Competent authorities shall have the authority to order the destruction or disposal of infringing goods in accordance with principles set out in Article 46. In regard to counterfeited trademark goods, the authorities shall not allow the re-exportation of the infringing goods in an unaltered state or subject them to a different customs procedure, other than in exceptional circumstances.

4. How will the case be handled by a WTO Panel or the Appellate Body?

A request for consultations is the first step in a WTO dispute. Under WTO rules, if the parties do not resolve a matter within a 60-day consultation period, then the complaining party may refer the matter to a WTO dispute settlement panel, which consists of three or five experts chosen from a permanent list of well-qualified candidates who examine the evidence and decide who is right and who is wrong. A panel’s ruling can only be rejected by consensus by the Dispute Settlement Body, the WTO General Council in another guise, which consists of all WTO members; or can be appealed to the Appellate Body, which can uphold, modify or reverse the panel’s legal findings and conclusions (47).

The United States and China held consultations in early June. However, the United States believe that China has not taken any steps that address U.S. concerns during this period. On 13 August, The Office of the U.S. Trade Representative an-

(47) Understanding the WTO, written and published by the WTO.
nounced that the United States had requested the WTO to establish a dispute settlement panel. The U.S. panel request alleges violations of various provisions of the TRIPS Agreement related to three aspects of China’s IPR regime. First, the request challenges quantitative thresholds in China’s criminal law that must be met in order to start criminal prosecutions or obtain criminal convictions for copyright piracy and trademark counterfeiting. The U.S. believe that wholesalers and distributors are able to operate below these high thresholds without fear of criminal liability, so these thresholds effectively permit piracy and counterfeiting on a commercial scale.

Second, the panel request addresses the rules for disposal of IPR-infringing goods seized by Chinese customs authorities. Those rules appear to permit goods to be released into commerce following the removal of fake labels or other infringing features, when WTO rules dictate that these goods normally should be kept out of the marketplace altogether.

Third, the panel request addresses the apparent denial of copyright protection for works poised to enter the market but awaiting Chinese censorship approval. The U.S. believe that it appears that Chinese copyright law provides the copyright holder with no right to complain about copyright infringement (including illegal/infringing copies and unauthorized translations) before censorship approval is granted. Immediate availability of copyright protection is critical to protect new products from pirates, who — unlike legitimate producers — do not wait for the Chinese content review process to be completed (48).

Based on the forgoing, a WTO panel or the Appellate Body may wish to look into the following issues in order to figure out a solution for the settlement of the dispute.

4.1. The Criminal Law Provision and its two interpretations.

4.1.1. Different treatment for corporate entities?

Article 220 of the Criminal Law. When a unit commits the crimes stated in Articles 213 through 219, it is to be sentenced to a fine; its directly responsible person in charge and other personnel of direct responsibility should be punished in ac-

cordance with the stipulations respectively stated in these Articles of this section (of IPR crimes).

**ARTICLE 15 of the 2004 JI.** Where a unit commits any of the crimes stipulated in the Articles 213 through 219 of the Criminal Law, it shall be convicted and sentenced according to the criteria that are as three times higher as those for convicting and sentencing individuals committing same crimes according to the Interpretation.

**Article 220 of the Criminal Law** as such does not imply any different criterion for corporate and individual infringers. Moreover, it stipulates that « directly responsible person in charge and other personnel of direct responsibility should be punished in accordance with » the same Articles that are applicable for individuals.

However, Article 15 of the 2004 Judicial Interpretation, by providing that the criteria are three times higher than that for individuals, could be problematic in case of a WTO challenge. Even if there is no clear mandate in the TRIPS Agreement that the criminal threshold should be the same for both individuals and corporate entities, it may be argued that in order to make enforcement « deterrent » and « effective » within the meaning of Articles 41 and 61 of the TRIPS Agreement, individuals and corporate entities should be treated the same, otherwise there will an invitation for organized crime.

**Article 6 of the 2007 Judicial Interpretation** seems to address this problem by providing that Units that commit acts within the meaning of Articles 213 through 219 of the Criminal Law shall be subject to punishment applied according to the criteria that are for individuals set in the 2004 and 2007 JI. Further explanation is needed during the consultation or further steps of the WTO procedures.

It should also be taken into consideration that, in case corporate entities are treated the same as individuals, a clear distinction should be drawn very carefully between willful pirates or counterfeiters and companies which *bona fide* infringe IPRs unintentionally, *e.g.* because they are not aware of third party patent right, or, while being aware, deem them invalid, or, finally, believe not to infringe them otherwise, the latter may be punished very severely and treated the same as those willfully commit copyright piracy or trademark counterfeiting. Should the (corporate) defendants-respondents have been in the meantime subjected to the same discovery and freezing mechanisms which have been proved to be entirely apt against pirates, a great deal of legitimate busi-
nesses would have gone bankrupt a long time before their rights could be vindicated by a final Court decision (49).

4.1.2. Which price shall be used? — Article 12 of the 2004 Judicial Interpretation provides as follows:

- Illegal business volume as stipulated in the Interpretation refers to the value of the products produced, stored, transported and sold by the doer in the course of infringing on intellectual property. Value of the products produced by infringing on intellectual property shall be computed according to the prices at which such products are actually sold. Value of the products produced by infringing on intellectual property produced, stored, transported, and those not sold shall be computed according to the labeled prices or the actual prices found to be sold at after investigation. Value of the products produced by infringing on intellectual property without labeled prices or whose actual prices are impossible to be ascertained shall be computed according the middle market prices of such products.

It is interesting to make a comparison between China and U.S. in this regard. Sections 2318, 2319, 2319A and 2320 of title 18 of the U.S.C. for criminal prosecution of IPR infringements use the « retail value » for the purpose of computation of illegal business volume. It is argued that the term « retail value » is deliberately undefined, since in most cases it will represent the price at which the work is sold through normal retail channels. In case infringing goods are not marketed through normal retail channels, the courts may look to the suggested retail price, the wholesale price, the replacement cost of the item, or financial injury caused to the copyright owner (50).

At least one thing seems clear: neither the U.S. Code nor the Chinese Interpretation uses the unequivocal wording of « value of genuine goods » for the computation of illegal business volume. The price at which the infringing goods are sold through normal retail channels in U.S. does not necessarily mean the value of genuine goods, and to some extent, it may be regarded as the same of « the middle market prices » provided by China’s 2004 Judicial Interpretation.

The use of value of genuine goods could lead to the expansion of exclusive rights of IPR holders to the enforcement of law,

which seems to be an un-negotiated obligation under the TRIPS Agreement and will thus be unexpected to many WTO Members.

4.1.3. « Commercial scale » within the meaning of Article 61 of the TRIPS. — U.S. may allege that the two Judicial Interpretations issued pursuant to the Criminal Law fails to criminalize all « cases of willful trademark counterfeiting and copyright piracy on a commercial scale » within the meaning of Article 61 of the TRIPS Agreement.

Justin Hughes believes that a WTO Panel should not have an overly difficult time giving meaning to the notion of counterfeiting and copyright piracy « on a commercial scale ». For example, if the statutory or regulatory thresholds for criminal prosecution are so high as to leave substantial amounts of obviously « commercial » activity invulnerable to criminal prosecution, then the law would be, on its face, incompatible with Article 61 (51).

The problem is that not all « commercial activities » should be punished criminally. One can not be sent to prison because he has sold 20 illegal copies of DVDs unless he is a repeated offender. Criminal sanction is not a one-fits-all choice and misdemeanors can be addressed by administrative enforcement, if the latter is properly implemented. The principle of proportionality, which is the cornerstone of EU law system and also reflected in Article 61 of the TRIPS Agreement (52), shall apply in the process of drawing a proper line somewhere in order to determine what is the « commercial scale » that should punished criminally pursuant to Article 61 of the TRIPS Agreement.

4.1.4. « Deterrent » within the meaning of Articles 41 and 61 of the TRIPS. — The TRIPS Agreement requires « imprisonment and/or monetary fines sufficient to provide a deterrent » (Article 61), or « remedies which constitute a deterrent to further infringements » (Article 41). China is criticized that « the fines for infringement are too low, they more resemble the price of local business permits than a society’s sanction for illegal behavior »; there is also concern that fines are often unpaid — another level of problematic enforcement, which could show lack of TRIPS-mandated deterrence (53).

(51) Supra at note 17.

(52) Article 61 provides, inter alia, « consistently with the level of penalties applied for crimes of a corresponding gravity ».

(53) Supra at note 17.
The U.S. may wish China to apply more stringently and frequently criminal measures to crack down on IPR violators, but criminal measures are not the only means to make IPR enforcement « deterrent ». The example can be found in the continental European legal systems which prefer to avoid systematic resort to criminal measures to enforce court orders, by the provision of steeply increasing money penalties (fines or, in the French parlance, *astreintes*) (54).

Up to now, China does not apply punitive fines. Under the current legal framework, compensation of right holders is limited to, either injury caused by infringement or unlawful income; in case neither of them can be ascertained, compensation shall not exceed 500,000 RMB. Article 48 of the Copyright Law provides as follows:

Where a copyright or a copyright-related right is infringed, the infringer shall compensate for the actually injury suffered by the right holder; where the actual injury is difficult to compute, the damages shall be paid on the basis of the unlawful income of the infringer. The amount of damages shall also include the appropriate fees paid by the right holder to stop the infringing act.

Where the right holder's actual injury or infringer's Unlawful income cannot be determined, the People's Court shall Judge the damages not exceeding RMB 500,00 depending on the circumstances of the infringing act.

The 2007 Judicial Interpretation tries to address the issue by providing in its Article 4 that:

While handling IPR crimes, people's courts should take into account the illegal income, the illegal business volume, injury caused to right owners, and social negative impact as a whole. Fines should be more than the illegal income and less that five times that amount, or more than 50% of the illegal business volume and not exceeding twice that volume.

But how to calculate the illegal business volume, *i.e.* by using the price of infringing goods or that of genuine goods, is subject to further clarification.

4.1.5. « Effective » within the meaning of Article 41 of the *TRIPS*. — The general phrases of Article 41, *i.e.* « Effective action » in the form of « remedies which constitute a deterrent to further infringements », without any previous case law, would confront a WTO Panel with the problem of how to interpret them. In

(54) *Supra* at note 49.
other words, what would be the proper framework for considering the sufficiency or deficiency of a country’s enforcement of IP laws (55)?

Comparison may need to be made with other countries in order to find whether China’s IPR protection is « effective ». However, it is very difficult to find an equivalent counterpart of China, given its size, be it economic or demographic; and its complexity, be it traditional or historical. U.S. could have been used as an example, if its GDP per capita were not twenty-five times that of China’s. Therefore, the numeric threshold for criminal prosecution of RMB 50,000 or approx US$ 6,000 in China’s 2004 Judicial Interpretation cannot simply be compared with that of US$ 1,000 in the No Electronic Theft Act of the U.S. Code.

Comparison may also be made with other aspects of Chinese legal system, even if Article 41(5) which clarifies that TRIPS Agreement creates « no obligation with respect to the distribution of resources as between enforcement of intellectual property rights and the enforcement of law in general » suggests that this approach may be foreclosed. The result of this kind of comparison may be that, enforcement is not only the problem of IPR protection in China; it concerns a host of other issues, from environment protection to food safety, from mining security to local protectionism. IPR enforcement has attracted much attention not because it is more deficient than other aspects of Chinese legal system, but because it conflicts with the interests of industrial groups from other countries rather than polluting air and waters or jeopardizing human lives in China.

4.1.6. « Available » within the meaning of Articles 41 and 61 of the TRIPS. — Justin Hughes believes that the legal argument based on Articles 41 and 61 of the TRIPS Agreement would be straightforward qua legal argument: (1) that « enforcement procedures » are not « available » in China’s legal system « so as to permit effective action » against infringements because « remedies which constitute a deterrent to further infringements » are not really « available » and, in particular, (2) that criminal prosecutions are simply not happening « in case of willful trademark counterfeiting and copyright piracy on a commercial scale » (56).

(55) Supra at note 17.
(56) Id.
In the United States - Section 211 Omnibus Appropriations Act Of 1998, the Appellate Body interpreted (para. 215) the meaning of « make available » of Article 42 of the TRIPS Agreement as follows:

The first sentence of Article 42 requires Members to make certain civil judicial procedures « available » to rights holders. Making something available means making it « obtainable », putting it « within one’s reach » and « at one’s disposal » in a way that has sufficient force or efficacy. We agree with the Panel that the ordinary meaning of the term « make available » suggests that « right holders » are entitled under Article 42 to have access to judicial procedures that are effective in bringing about the enforcement of their rights covered by the Agreement.

If the same reasoning applies to Articles 41 and 61, the obligation to « ensure that enforcement procedures [...] are available », or « remedies available shall include [...] » means that enforcement procedures and remedies described in the TRIPS Agreement are « obtainable » and genuinely « within reach » of rights holders. It will be very interesting to see how U.S. utilizes this interpretation to challenge the availability of China’s enforcement procedures and remedies.

4.2. The Copyright Law.

In this area, what U.S. really cares may be the span of time before the censor approval is granted, during which it is believed that copyright infringers are given « an upper hand in the Chinese market ». In such a situation, a « mail-box » like protection, initially designed for patents pursuant to Articles 70.9 of the TRIPS Agreement, i.e. to grant exclusive marketing rights before approval, may suggest a way to enable American copyright holders to compete as fairly as possible in the Chinese Market.

Article 4 of the Copyright Law touches a profound issue: can public interest be invoked to limit the exclusive rights of copyright holders? What if a work the content of which is anti-social or pornographic and thus in contradiction with law? Should the exclusive rights still be protected by law to facilitate their dissemination to the general public?

Article 17 of the Berne Convention, which is also incorporated in the TRIPS Agreement through Article 9.1, may give an answer in this regard:

The provisions of this Convention cannot in any way affect the right of the Government of each country of the Union to permit, to control, or to prohibit, by
legislation or regulation, the circulation, presentation, or exhibition of any work or production in regard to which the competent authority may find it necessary to exercise that right.

4.3. **The Customs Regulations.**

China is still a developing country and cannot afford the extravagancy of destroying infringing goods at whatever cost. This may also be a concern of other developing Members. Article 27 of The Regulation for Customs Protection of IPRs sets a four-step approach to deal with confiscated goods, *i.e.* public welfare projects first (57), IPR holders second (if he intends to purchase the goods), auctions third if the first two choices fail and if infringing features can be removed, and destruction of goods the last resort.

A challenge in its face to the Customs Regulations may be difficult. Articles 46 of the TRIPS Agreement can be understood as meaning that while the infringing features can be removed, release of the goods into the channels of commerce is permitted. Article 59, by providing that « competent authorities shall have the authority to order the destruction or disposal of infringing goods », can be understood as meaning that destruction of goods is not the only choice and the four-step approach is not inconsistent with China’s obligations under the TRIPS Agreement.

4.4. **A « non-violation » complaint?**

The United States may wish to bring a WTO claim against China not on the letter of the TRIPS Agreement but on the grounds that IP enforcement in China is so deficient that American intellectual property owners have been deprived of meaningful access to the Chinese market. In such a situation, a non-violation complaint will be the best choice.

U.S. is among the few countries that advocate immediate and non-conditional application of non-violation complaint to the TRIPS Agreement. Article 64.2 set a five-year moratorium (*i.e.* until 1 January 2000) to the application of non-violation complaints to the TRIPS Agreement which has been prolonged ever

(57) Article 30 of the Implementing Rules of the Customs Regulations stipulates, *inter alia*, « when the relevant public welfare organization uses the infringing goods confiscated by the Customs in public welfare undertakings [...] the customs shall exercise the necessary supervision ». 
since. The latest renewal of the moratorium was in December 2005, when the Hong Kong Ministerial Conference declared that WTO members will not initiate non-violation complaints under the TRIPS Agreement (para. 45) (58).

Under a hypothetical non-violation complaint, U.S. may believe that the rights of American holders under the TRIPS Agreement are being nullified or impaired because, for example, the Judicial Interpretations fail to lower the criminal threshold enough even if they do not violate any of China’s obligations under the TRIPS Agreement, and may wish to initiate the non-violation complaint on the basis of Article 26(1) of the WTO Dispute Settlement Understanding (DSU), Article 64 of the TRIPS Agreement which, refers to Article XXIII: 1 of GATT 1994 which provides that:

A WTO member can bring a dispute settlement case if it « consider(s) that any benefit accruing to it directly or indirectly under this areement is being nullified or impaired...as a result of » (a) the failure of another contracting party to carry out its obligations under this Agreement (violation complain, the basis of almost all disputes under the GATT 1947 and the WTO Agreement); (b) the application by another contracting party of any measure, whether or not it conflicts with the provisions of this agreement (non-violation complaint, only a handful cases), and (c) the existence of any other situation (situation complaint, it has never been the foundation for a recommendation or ruling of the GATT Contracting Parties or the DSB) (59).

The non-violation remedy stemmed from the early bilateral trade agreements, and was subsequently included in the GATT to protect the balance of tariff negotiations by addressing the misused and other trade-restrictive measures that, while consistent with basic GATT disciplines, may have affected the agreed deal. The ultimate goal of non-violation complaint is not the withdrawal of the measure concerned, but rather achieving mutually satisfactory adjustment, usually by means of compensation. Since GATT/WTO law is becoming more and more comprehensive and complete, and since what was call the legal vacuum around GATT is shrinking, there will be less and less scope for non-violation cases (60).

(59) Information in brackets comes from the Appellate Body Report (para. 17) in the India-patent case.
The application of non-violation complaints to the TRIPS Agreement which does not involve the same exchange of rights and obligations as exist in the GATT and the GATS, could be problematic and may, inter alia, encourage unilateral pressure and speculative claims to force countries to raise protection beyond minimum requirements (61), and have the effect of creating new un-negotiated responsibilities (62).

4.5. Transparency: a forgotten issue?

The idea of transparency as a norm for the trading system was based on American administrative law, which dates back in 1946, while negotiations for the new trading system, the International Trade Organization (ITO), were underway, and nations were simultaneously negotiating for a general agreement on tariffs and trade (GATT). Article 15 of the September 1946 State Department document, entitled *Publication and Administration of Trade Regulations - Advance Notice of Restrictive Regulations*, was incorporated, *mutatis mutandis*, as Article 38 in the Havana Charter for ITO (63) and Article X of the GATT. The norm evolved together with the multilateral trading system which began to move inside border during the Tokyo Round in the wake of The OPEC oil shock of mid 1970s that had fueled new protectionism and was further extended to the GATS and TRIPS Agreement in Uruguay Round. Today, transparency has quite a different meaning and goes to the heart of a country’s legal infrastructure, or more precisely to the nature and enforcement of its administrative law regime (64).

(61) Matthew Stilwell and Elisabeth Tuerk, *Non-Violation Complaints and The TRIPS Agreement: Some Considerations for WTO Members*, May 2001: joint project of Center for International Environment Law and the South Center to assist developing countries on intellectual property issues at the WTO, supported by the Rockefeller Foundation.


(63) The ITO was intended to be a permanent organization that would govern international trade, enforce rules against unfair use of trade barriers and practices, and settle trade disputes between member nations much as the WTO does today. The ITO Charter was ultimately submitted to the nations for ratification but the U.S. Congress refused to approve it. Subsequently, no other nation desired to enter the ITO.

(64) Sylvia Ostry, *China and the WTO: the Transparency Issue*, 2001. The au-
Article 63 of the TRIPS Agreement requires laws, regulations and final judicial decisions and administrative rulings of general application pertaining to IPR infringement be made publicly available. In October 2005, the United States, along with Japan and Switzerland, requested that China provide additional IPR enforcement data pursuant to Article 63.3 of the TRIPS Agreement. Through constructive consultations in March 2006, Chinese and U.S. governments achieved progress. The USA hopes to achieve further progress in obtaining information in such areas as criminal copyright cases, cases involving U.S. right holders, and cases involving exports (65). In 2006 Special 301 Report, USTR indicated that « lack of transparent information on IPR infringement levels and enforcement activities in China continues to be a problem ».

However, the 10 April consultation request of USTR mentioned nothing about transparency. The reason may be that, the norm goes too deeply into a country’s legal infrastructure and it will be too risky to utilize the WTO dispute settlement procedures to challenge China’s transparency. USTR may have realized it. In its 2006 Special 301 Report, USTR stated that « the United States, in cooperation with other WTO members, has also made innovative use of WTO tools other than dispute settlement (with regard to Article 63.3 of the TRIPS Agreement) ».

Transparency may be invoked to obtain necessary information to build a case. However, such information may also be collected through the WTO dispute settlement process itself, as the Appellate Body noted in the EC - Sardines case:

"Indeed, the dispute settlement process itself also provides opportunities for the complainant to obtain the necessary information to build a case. Information can be exchanged during the consultation phase, and additional information may well become available during the panel phase itself... a complainant could collect information before and during the early stages of the panel proceedings and, on the basis of that information, develop arguments... that may be put forward during subsequent phases of the proceedings."

4.6. Burden of proof: what is believed to be sufficient?

The usual allocation of the burden of proof is crystal clear in

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(65) Supra at note 20.

Author is Distinguished Research Fellow at the Center for International Studies, University of Toronto.
WTO jurisprudence. In the Canada - Dairy case (Article 21.5 - New Zealand and U.S. II), the Appellate body stated in its report (para. 66) as follows:

We have consistently held that, as a general matter, the burden of proof rests upon the complaining Member. That Member must make out a prima facie case by presenting sufficient evidence to raise a presumption in favour of its claim. If the complaining Member succeeds, the responding Member may then seek to rebut this presumption. Therefore, under the usual allocation of the burden of proof, a responding Member’s measure will be treated as WTO-consistent, until sufficient evidence is presented to prove the contrary. We will not readily find that the usual rules on burden of proof do not apply, as they reflect a « canon of evidence » accepted and applied in international proceedings.

Thus, the initial burden of proof, or the burden of production, will rest upon the USA. The problem is that, what kind of proof will be deemed sufficient in our case? The USA may claim that, because of information asymmetries caused by China’s deficiency in transparency, the burden of proof on the complainant’s prima facie case should be lower. The Appellate Body’s opinion in the USA - Wool Shirts and Blouses (Appellate Body Report, p. 14, DSR1997:I, p. 323 at 335) might be invoked to support this view:

The burden of proof rests upon the party, whether complaining or defending, who asserts the affirmative of a particular claim or defense. If that party adduces evidence sufficient to raise a presumption that what is claimed is true, the burden then shifts to the other party, who will fail unless it adduces sufficient evidence to rebut the presumption.

In the context of the GATT 1994 and the WTO Agreement, precisely how much and precisely what kind of evidence will be required to establish such a presumption will necessarily vary from measure to measure, provision to provision, and case to case.

However, the Appellate Body’s statement in the EC-Sardines case (para. 281), should also be taken into consideration:

There is nothing in the WTO dispute settlement system to support the notion that the allocation of the burden of proof should be decided on the basis of a comparison between the respective difficulties that may possibly be encountered by the complainant and the respondent in collecting information to prove a case.

It will be very interesting to see how a WTO panel will handle the tricky job of allocation of burden of proof.

4.7. Interpretation: a thorny job.

Many of the issues related to interpretation in our case, such as « commercial scale », « deterrent », « effective », or « available »
within the meaning of Articles 41 and 61 of the TRIPS Agreement, have been discussed above. This part will focus on the general rules that usually apply to interpretation of the WTO Agreement to which the TRIPS is annexed.

4.7.1. Reasons for interpretation. — The precise scope of the rights and obligations contained in the WTO Agreement is not always evident from a mere reading of the legal texts. Legal provisions are often drafted in general terms so as to be of general applicability and to cover a multitude of individual cases, not all of which can be specifically regulated. Whether the existence of a certain set of facts gives rise to a violation of a legal requirement contained in a particular provision is, therefore, a question that is not always easy to answer. In most cases, the answer can be found only after interpreting the legal terms contained in the provision at issue (66).

In addition, legal provisions in international agreements often lack clarity because they are compromise formulations resulting from multilateral negotiations. The various participants in a negotiating process often reconcile their diverging positions by agreeing to a text that can be understood in more than one way so as to satisfy the demands of different domestic constituents. The negotiators may thus understand a particular provision in different and opposing ways (67).

For those reasons, as in any legal setting, individual cases often require an interpretation of the pertinent provisions.

4.7.2. Methods of interpretation. — The DSU expressly states that the dispute settlement system is intended to clarify the provisions of the WTO Agreement « in accordance with customary rules of interpretation of public international law » (Article 3.2 of the DSU). In addition, Article 17.6 of the DSU implicitly recognizes that panels may develop legal interpretations.

While « customary international law » within the meaning of Article 3.2 of the DSU is normally unwritten, there is an international convention that has codified some of these customary rules


(67) Id.
of treaty interpretation. Notably, Articles 31\(^{(68)}\), 32\(^{(69)}\) and 33\(^{(70)}\) of the Vienna Convention on the Law of Treaties (Vienna Convention) embody many of the customary rules of interpretation of public international law. While the reference in Article 3.2 of the DSU does not refer directly to these Articles, the Appellate Body has ruled that they can serve as a point of reference for discerning the applicable customary rules\(^{(71)}\).

4.7.3. **Limitations in interpretation.** — The interpreting job of a WTO Panel or the Appellate Body is somehow like that of a tinker or plasterer: while the edifice of the WTO Agreement was built up through multilateral negotiations, their task is to fix the crack in the wall. No matter if the metaphor is correct or not, the discretion of a panel and the Appellate Body in interpretation is limited. Article 19.2 of the DSU provides, *inter alia*:

> In accordance with paragraph 2 of Article 3, in their findings and recommendations, the panel and Appellate Body cannot add to or diminish the rights and obligations provided in the covered agreements.

The Appellate Body also pointed out in *U.S. - Section 211 Appropriations Act* that:

> One of the corollaries of the « general rule of interpretation » in the Vienna Convention is that interpretation must give meaning and effect to all the terms of a treaty. An interpreter is not free to adopt a reading that would result in reducing whole clauses or paragraphs of a treaty to redundancy or inutility.

> In the *India - Patent Protection for Pharmaceutical and Agricultural Chemical Products case*, the Appellate Body overruled the panel’s interpretation of legitimate expectations where the panel believed that:

\(\text{(68) General Rule of Interpretation: « A treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose ». This article contains *four keys* to interpretation: the ordinary meaning of the terms; the context; the object and the purpose of the agreement and the requirement to construe the norm in good faith.}

\(\text{(69) Supplementary Means of Interpretation: recourse may be had to supplementary means of interpretation, including the preparatory work of the treaty and the circumstances of its conclusion.}

\(\text{(70) Interpretation of treaties authenticated in two or more languages.}

In our view, good faith interpretation (in accordance with Article 31 of the Vienna Convention) requires the protection of legitimate expectations derived from the protection of intellectual property rights provided for in the Agreement.

In para. 23-24 of its report, the Appellate Body stated the following:

The Panel misunderstands the concept of legitimate expectations in the context of the customary rules of the interpretation of public international law. The legitimate expectations of the parties to a treaty are reflected in the language of the treaty itself. The duty of a treaty interpreter is to examine the words of the treaty to determine the intentions of the parties. This should be done in accordance with the principles of treaty interpretation set out in Article 31 of the Vienna Convention. But these principles of interpretation neither require nor condone the imputation into a treaty of words that are not there or the importation into a treaty of concepts that were not intended... the panel in this case has created its own interpretative principle... both panels and the Appellate Body must be guided by the rules of treaty interpretation set out in the Vienna Convention, and must not add to or diminish rights and obligations provided in the WTO Agreement.

Give the foregoing limitations, it will be very difficult for a panel or the Appellate Body to interpret those broad terms in our case such as « commercial scale », « deterrent » or « effective », or to determine which price should be used for the computation of illegal business volume, without imputation into the TRIPS Agreement of « words that are not there or the importation into the Agreement of concepts that were not intended ». At least, it is not as easy as to recommend the extension of protection to trade names in the case of US - Section 211 Appropriations Act, or to recommend India to comply with the « mailbox » rule under Article 70.8(a) and 70.9 of the TRIPS Agreement in the India - Patent case. In the latter two cases, the language of relevant provisions is much clearer, the panels and the Appellate Body bore fewer risks of creating new un-negotiated obligations by way of interpretation.

4.7.4. Other factors that should be considered.

a) Sparse precedents for the TRIPS provisions. — So far, there have only been a few WTO disputes concerning the TRIPS provisions and those concerning enforcement even fewer. In the latter case, only one of these provides any meaningful guidance to the kind of case the United States would bring against China (72).

(72) U.S. - Section 211 Appropriations Act, the meaning of « available » as discussed above.
The other disputes were, first, settled by mutual agreement (73), and, second, concerned very narrow enforcement issues (74).

The kind of claims that the United States might bring against China, even if made « on the book », cover Part I, II and III of the TRIPS Agreement and would require much more interpretation of the TRIPS provisions — with a much greater range of possible outcomes and a concomitantly greater amount of political pressure on the Panel and the Appellate Body (75).

Justin Hughes believes that this lack of precedent on the TRIPS provisions is partly the U.S.’s own fault. Both the Clinton and Bush Administrations could have had a more concerted plan to develop interpretation of the TRIPS provisions through one or two carefully chosen, lower profile cases against countries that have egregiously failed to enforce IP protection (76).

b) *The legislative history of the TRIPS Agreement.* — Pursuant to Article 32 of the Vienna Convention (77), a panel or the Appellate Body may wish to look at the legislative history of the TRIPS Agreement in order to perform proper interpretation.

The legislative history of the process that led to the negotiation and adoption of the TRIPS Agreement is roughly made of three ingredients: First, intellectual property has become part and parcel of the new WTO framework because low standards of IP protection in the South has been conceptualized as a barrier to trade, hindering or restraining the flow of Northern IP-incorporating goods and services toward the South that otherwise would have occurred on a level playing field based on uniform minimum conditions of IP protection. Second, this « producer driven governance model » of IP, shaped by the « traditional export interests prevailing in the North », has been grudgingly ac-

(73) The U.S. 1997 dispute with Denmark and Sweden, *Dispute DS83* and 86, U.S. alleged that Denmark and Sweden did not provide provisional measures in civil cases in violation of the two countries’ obligations under TRIPS Articles 50, 63 and 65.

(74) European Union - Enforcement of Intellectual Property Rights for Motion Pictures and Television Programs, *Dispute DS124*; Greece - Enforcement of Intellectual Property Rights for Motion Pictures and Television Programs, *Dispute DS125*; Request for Consultations 30 April 1998. The United States alleged that a significant number of Greek television stations broadcast American audiovisual works without authorization in violation of TRIPS Articles 41 and 61.

(75) *Supra* at note 17.

(76) *Id.*

(77) *Supra* at note 69.
cepted by the South in exchange for the promise that the latter’s goods, including agricultural products and textiles, would obtain access to the rich consumer markets of the North. Third, the acceptance of the TRIPS-mandated levels of IP protection was far from enthusiastic and unqualified. Before adopting the « package », developing countries insisted that the monopolistic potential of stronger intellectual properties should be, at least in part, counterbalanced by accommodating a competition law component in TRIPS (78).

c) The inherent imbalance within the TRIPS Agreement. — The inclusion of the TRIPS Agreement as part of one single undertaking was one of the most controversial issues during the Uruguay Round Negotiations. It is generally accepted that the developing and least developed countries were placed under great political and economic pressure to accept terms that did not adequately take into account their specific interests (79).

Let’s take access to life-saving drugs as an example. Although the obligations established by the TRIPS Agreement were likely to have a substantial impact on prices of and access to medicines, there was very limited participation by public health experts and officials in the negotiating process, although pharmaceutical industry representatives played a major role in pressing for conclusion of the Agreement. While the pharmaceutical industry is the beneficiary of an extremely valuable public policy instrument — the TRIPS Agreement, there is nothing in the Agreement that obliges this industry to use the increased patent rents obtained from developing countries for research on diseases prevalent in those countries. Against this background, it is not surprising that developing (including least developed) Members of the WTO face difficulties in implementing the Agreement (80).

5. Conclusion.

The dispute settlement system is vital to the rule-based
WTO. A WTO case does not mean the end of the world and U.S. itself has been subject to dozens of GATT/WTO cases. However, the WTO case against China as to IPR protection and enforcement is very frustrating, especially as the Chinese government has announced a variety of effort over the past few years — so many that a person outside government circles has a hard time keeping track (81).

The request of WTO consultations stirred strong reaction from China. On 10th April, the Ministry of Commerce of China expressed « great regret and strong dissatisfaction at the decision of the United States to file WTO cases » and stated that « it will serious undermine the cooperative relations the two nations have established in the field and will adversely affect bilateral economic and trade ties » (82). While U.S. as a Member has the right to initiate a WTO case, such an action may also close the door of bilateral cooperation and USTR’s wish to « continue fruitful bilateral discussions with China on other important IPR matters we have been working together, since achieving comprehensive IPR protection requires concerted efforts on many fronts » (83) can be undermined by itself.

The WTO case reflects U.S. conflicting position towards China in the context of globalization. While the Bush Administration proposed the Strategic Economic Dialogue with China in 2006 and seemed to adopt a « dialogue first » approach, its recent measures in coated paper (84), car parts (85), subsidies (86), and IPR may indicate a confrontational approach, probably also under the influence of politicians.

U.S. may wish to utilize the WTO system, created under its

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(81) Supra at note 17.
(83) Supra at note 11.
(84) On 30 April, the U.S. Commerce Department announced its affirmative preliminary determination in the countervailing duty investigation on imports of coated free sheet paper from China, which revealed that Chinese producers/exporters have received net countervailable subsidies ranging from 10.90 to 20.35 percent. Information available at: http://ita.doc.gov/press/press_releases/2007/china_033007.pdf. The measure is unusual in sense that countervailing measures against subsidies are believed as not applicable to non market economies.
(86) Supra at note 8.
leadership (87), to confront the uprising of China in order to offset the side-effects of globalization in the context of which China is believe to be one of the biggest winners. This approach is dangerous, not only to U.S. and China, but also to the WTO system. The Chinese proverb which goes «Harmony brings fortune» (He Qì Sheng Tsai) may suggest a way. As to the relations between China and U.S., harmony not only brings fortune, it is vital for the two countries to calm down in case of crisis and find together a win-win solution.

(87) Supra at note 64.
LAW
Legislative Decree of 15 February, 2007, No. 10
Provisions implementing community and international obligations
(coordinated text as amended by conversion law No. 46, 2007 -
published in Official Journal No. 38, 15 February, 2007)

[Omissis]

Article 4. (Implementing provisions concerning Community decisions
on publicity and sponsorship of tobacco products, access to electronic com-
munication networks, post-meter services and copyright protection for indus-
trial designs, infringement procedures n. 2006/2022, n. 2005/2083, n. 2005/
4604 and n. 2005/4088). — [Omissis].

4. The Intellectual Property Rights Code, pursuant to Legislative
Decree of 10 February, 2005, No. 30 has been amended as follows:

a) in Article 44, paragraph 1, the word « twentieth » is replaced by
« seventieth »;

b) Article 239 is replaced by the following:
« Article 239. (Limits to copyright protection) — The protection
granted to designs and industrial models, pursuant to Article 2, para-
graph 1, n. 10, according to Law 22 April, 1941, n. 633, does not apply to
goods manufactured in compliance with designs or models that before
the date of entry into force of the Legislative Decree 2 February, 2001,
No. 95 entered or had entered the public domain ».

Editorial comment.

This hundredth legislative intervention in the field of the
copyright protection for industrial design works amends Article
44, paragraph 1 of IPC, extending the length of copyright to 70
years after the author's death. The former text of the named ar-
ticle had inexplicably reduced the protection to 25 years after the
author's death and, for this reason, the European Commission had
decided to pursue an infringement procedure.

This Legislative Decree also replaces Article 239 that stated
a limitation of the copyright protection, for a period of ten years,
to those who, before 19 April, 2001, had started the manufacture,
the offer or the commercialization of goods and design works al-
ready fallen into the public domain.

The newly introduced rule changes this situation, as the
copyright protection doesn’t cover anymore those works manufactured or put into market before the entry into force of the Legislative Decree, 2 February, 2001, No. 95.

This legislative intervention is anyway bewildering. We cannot in fact ignore that, even if there are many case-law interpretations of the provision under Article 2, paragraph 1 No. 10 of the Italian Copyright Act, relating to the «creative character and the artistic value» of the work, copyright protection applies also to those works created before the year 2001 (1).

It’s worth considering that Article 17 of the Directive 98/71/EC states that the copyright protection for designs and models starts «from the date on which the design or the model was created or fixed in any form».

Furthermore, the design discipline is a mess of incoherent provisions. As a matter of fact, Article 246 paragraph 1gg of IPC abrogates the Legislative Decree, 2 February, 2001, No 95. In stating this abrogation, the legislator didn’t take into account that Article 22, paragraph 1 letter b) of the named decree had amended Article 2 of the Copyright Act, adding the number 10, which is referred to the industrial design works.

If that rule had to be considered really abrogated, then we should tackle the copyright protection issue for design works through a systematic analysis of the law. But in this way, the questions of the exemplifying character of the list under Article 2 of the Copyright Act as well as that of the industrial design work protection according to the general clause of the Article 1, arise once again.

Nevertheless — and the contradiction is evident — Article 44 of the IPC refers to the protection for industrial design works granted by the Copyright Act and Article 239 of the Code, in the chapter of the final and transitory provisions, implies a «protection for designs and models [industrial designs works] according to Article 2, paragraph 1 No. 10 of the Law 22 April, 1941 No 33».

These legislative interventions, and the latest one herewith reproduced, absolutely don’t take into consideration the above remarks.

G.S.

Ministerial Decree of 3 October, 2007
Assignment of the Priority Search to the European Patent Office
(published in the Official Journal n. 250, 26 October, 2007)

[Omissis].


Article 2. (Compulsory Indication of Fiscal Code). — 1. Universities or public administrations having research aims among their institutional purposes, along with the administrative offices of Agricultural, Food and Forestry Policy and the administration of Defence are obliged to indicate the Fiscal Code in the filing applications for industrial invention and utility model as condition to obtain the exemption from payment of fees pursuant to Article 2, Ministerial Decree of 6 April, 2007.

2. Legal persons of foreign nationality referred to under paragraph 1 have the obligation to specify in the filing application the condition to grant the exemption from payment of fees pursuant to Article 2, Ministerial Decree of 6 April, 2007.

Article 3. (Lapse). — 1. The delayed payment of the fifth annual due fee, in case of patent for inventions, and of the second five-year period in case of patent for utility model and of registration for designs or model leads to the lapse of the intellectual property right from the filing date of the relevant application.

2. The late or non-filing request for extension, pursuant to Article 238, Legislative Decree of February 2005, n. 30 and referred to the second five-year period of designs and models, leads to the lapse of the intellectual property right from the filing date of the relevant application.

Article 4. (Agreements). — In accordance to provision under Article 223 paragraph 4, Legislative Decree of February 2005, n. 30, The Italian Patent and Trademark Office is entitled to convene special agreements with Poste Italiane S.p.a. in order to offer users systems — including data transmission systems — of even massive fees payments and to ob-
tain timely payments reports in the convenient format for the manage-
ment.

[Omissis].

Editorial comment.

By means of the above Ministerial Decree of 3 October, 2007 the legislator implemented the provision under Article 170, para-
graph 1, letter b) IPC, according to which the application exami-
nation does not cover the validity requirements « as far as the pri-
ority search shall not be regulated by Ministerial Decree ».

Article 1 of the Decree designates EPO as the competent Searching Authority for patent application related to national in-
ventions. A following agreement between UIBM and EPO shall deal with the execution procedure.

Taking into consideration the present context, this legislative intervention is questionable.

The appropriateness of the national choice is not under ques-
tion, as the European Patent Office is the most suitable and seri-
ous option; instead doubts arise from the methods and phases of this intervention.

As far as methods are concerned, Article 170 IPC is only one among other rules providing the increasing range of action of the Office. Article 184 IPC, referring to the opposition procedure in respect of trademark registration (Art. 174 et seq. IPC), defers its outcome to a further decree of the Ministry for Economic Devel-
opment forecast on purpose, but up to now not yet issued.

Referring to the opposition procedure, it is worth considering that such normative framework has been in force since 1999 (see Article 20, paragraph 2, Legislative Decree 447/99), namely well before the entry into force of the Intellectual Property Rights Code (February 2005). The explanation might be that this issue has not been handled with a sense of equivalent urgency.

The same consideration could have been applied to the patent novelty examination in accordance with Article 170 IPC, but the Ministerial Decree of 3 October, 2007 has ruled differently.

Furthermore, the legislator continues to issue extravagant provisions (like the law in the field of biotechnological inventions, Law of 22 February, 2006, n. 78), in contrast with the asserted logic to corroborate all the IPR rules in a single Code.

P.F.