

CHINA IPR ENFORCEMENT: HARD AS STEEL OR SOFT AS TOFU? BRINGING THE QUESTION TO THE WTO UNDER TRIPS

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I. INTRODUCTION

The protection of intellectual property rights (IPR) is one of the main issues on the international trade agenda, particularly with respect to China. Currently, China is under severe scrutiny for the implementation and enforcement of IPR laws and regulations in compliance with its obligations under the World Trade Organization (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)¹ and its WTO Accession Protocol.² WTO Members, particularly the United States, express concern over China's progress in imposing criminal penalties for IPR infringement,³ the adequacy of enforcement of IPR through administrative and civil actions,⁴ the absence of self-initiated investigations and action by the Chinese authorities,⁵ the disparate treatment among domestic and foreign right holders of IPR,⁶ and the overall lack of deterrent effect under current IPR provisions.⁷

Due to its lack of adequate IPR legislation and enforcement, China is on the U.S. Section 301 priority watch list,⁸ and the United States has

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1. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, art. 63.3 Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299, 33 I.L.M. 1197 (1994) [hereinafter TRIPS].

2. INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE SPECIAL 301 REPORT PEOPLE'S REPUBLIC OF CHINA (PRC) 112 (2006) (noting that with respect only to copyright, "the piracy rates of physical copyright products remain virtually the highest in the world, at 85-95% depending on the industry sector and product format").

3. *Id.* at 109-11, 117-18.

4. *Id.* at 110, 118.

5. *Id.* at 114.

6. *Id.* at 113.

7. *Id.* at 109.

8. Section 301 of the Trade Act of 1974 (codified as amended at 19 U.S.C. § 2411 (2000)) is the principal statutory authority under which the United States may impose trade sanctions against foreign countries that maintain acts, policies, and practices that violate or deny U.S. rights or benefits under trade agreements or are unjustifiable, unreasonable, or discriminatory and

recently decided to use WTO mechanisms as a check on China's progress toward TRIPS compliance. On October 26, 2005, United States Trade Representative (USTR) Rob Portman, announced that the United States submitted a request to China for information under TRIPS Article 63.3.⁹ Article 63.3 allows WTO Members to request information pertaining to judicial decisions or administrative rulings on IPR-related matters when their rights under TRIPS are affected.¹⁰ According to the U.S. announcement, the main reason for such a request is that "piracy and counterfeiting remain rampant in China despite years of engagement on this issue."¹¹ Japan and Switzerland have joined the United States in submitting similar requests.¹² While China has complied with these requests, the sufficiency of information supplied in its responses has been disputed, thus accentuating the debate over China's IPR protection.¹³

In April 2007, the United States filed two IPR-related WTO complaints against China. The first complaint questions China's compliance with its TRIPS obligations. Specifically, it challenges China's thresholds for criminal procedures and penalties, the disposal of infringing goods confiscated by Chinese customs authorities, the denial of copyright and related rights protection and enforcement to works that have not been authorized for publication or distribution

burden or restrict U.S. commerce. "Special" 301 is a part of the Section 301 remedy that focuses on IPR and relies on the same statutory enforcement authority as in "normal" Section 301. Special 301 requires the U.S. Trade Representative to go through the process of identifying countries that: (a) deny adequate protection for IPR as provided for under any of a series of bilateral and multilateral agreements; or (b) deny fair and equitable market access for U.S. persons who rely on IPR. Countries identified under either of these provisions are designated in the categories of Priority Watch List, Watch List, or Section 306 Monitoring.

9. See Press Release, U.S. Dept. of State, Bureau of Int'l Info., U.S. Seeks Data on Chinese Protection of Intellectual Property (Oct. 26, 2005), available at <http://usinfo.state.gov/eap/Archive/2005/Oct/26-222045.html>.

10. TRIPS, *supra* note 1, art. 63.3.

11. Press Release, U.S. Trade Representative, USTR Pursues WTO Process to Probe IPR Enforcement in China (Oct. 26, 2005), available at <http://usinfo.state.gov/ei/Archive/2005/Oct/26-168537.html>; see also *Piracy and Counterfeiting in China: Hearing Before the U.S.-China Economic and Security Review Commission*, 109th Cong. (Jun. 7, 2006) [hereinafter *Piracy*] (testimony of Chris Israel, U.S. Coordinator for International Intellectual Property Enforcement) (stating that "the theft of American intellectual property strikes at the heart of one of our greatest comparative advantages - our innovative capacity").

12. *Piracy*, *supra* note 11 (testimony of Chris Israel, U.S. Coordinator for International Intellectual Property Enforcement).

13. The United States argues that some questions remained unanswered, while China argues that it has complied fully with the requests and provided all the relevant information. See *infra* pp. 235-36.

within China, and the unavailability of criminal procedures and penalties for persons who engage in either unauthorized reproduction or unauthorized distribution of copyrighted works.¹⁴

The second complaint challenges China's compliance with its other WTO obligations. In particular, it alleges that China restricts market access to IPR-related products because its measures restrict trading rights with respect to imported films for theatrical release, audiovisual home entertainment products (e.g. videocassettes and DVDs), and sound recordings and publications (e.g. books, magazines, newspapers and electronic publications).¹⁵ In addition, the United States claims that certain Chinese measures restrict market access for, or discriminate against, foreign suppliers of distribution services for publications and of audiovisual services (including distribution services) for audiovisual home entertainment products.¹⁶

This paper will discuss some of the potential challenges in bringing a complaint against China under TRIPS, particularly in light of the current debate regarding China's IPR protection and enforcement and the United States' recent formal WTO actions. The paper, however, does not take a position regarding the debate or the formal WTO actions. Rather, it attempts to provide an objective overview of some of the issues that may be raised in the Chinese IPR discussion. Part II will examine the U.S., European, and Chinese perspectives regarding IPR protection in China and China's compliance with its TRIPS obligations as expressed in published TRIPS Council Reports and other official documents and reports. Part III will analyze provisions in TRIPS and the China Accession Protocol¹⁷ that may be at issue in WTO complaints against China. Finally, Part IV will consider the challenges that may arise for the parties, like the United States, bringing such IPR actions against China in the WTO system. The paper will conclude that at this

14. Request for Consultations by the United States, *China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, WT/DS362/1 (Apr. 16, 2007).

15. Request for Consultations by the United States, *China—Measures Affecting Trading Rights and Distribution Services for Certain Publications and Audiovisual Entertainment Products*, WT/DS363/1 (Apr. 16, 2007).

16. *Id.* In this complaint, the U.S. does not bring forward a specific TRIPS claim. See also Daniel Pruzin, *U.S. Initiates Challenge Against Chinese Film Distribution, Download Restrictions*, 24 INT'L TRADE REP. (BNA) 1075 (2007). Moreover, in July 2007, the United States broadened its challenge against Chinese distribution restrictions on the sale of U.S. books, music, videos, and movies by including new claims against what it claims to be China's discriminatory rules against foreign films in theatrical releases and music download services operated by foreign firms. *Id.*

17. World Trade Organization, Ministerial Decision of 10 November 2001, Accession of the People's Republic of China, WT/L/432 (Nov. 23, 2001) [hereinafter China Accession Protocol].

time the U.S. complaint against China's IPR protection enforcement may raise more issues for the multilateral trading system than it will resolve.

II. THE PROBLEM WITH IPR PROTECTION IN CHINA: THE U.S., EU, AND CHINESE PERSPECTIVES

Admittedly, China's progress in the implementation of new IPR regulations and enforcement provisions since its accession at the WTO has been enormous.¹⁸ China, however, may have a long way to go in order to bring its IPR protection system in full compliance with the TRIPS requirements.¹⁹ At present, some of China's WTO partners express dissatisfaction with the enforcement of IPR protection in China or lack thereof. The debate is further accentuated by the recent U.S. recourse to the WTO dispute settlement mechanism to challenge current Chinese IPR measures.²⁰

WTO Members, particularly the U.S. and the European Union (EU), have been concerned about widespread piracy and counterfeiting in China and the resulting negative effects on the economic interests of the legal right holders of IPR.²¹ These concerns have also been expressed in TRIPS Council Reports and other public documents.²²

In the 2005 TRIPS Council Review under Section 18 of China's Accession Protocol,²³ the European Union expressed its concerns

18. See U.S. CHAMBER OF COMMERCE, CHINA'S WTO IMPLEMENTATION AND OTHER ISSUES OF IMPORTANCE TO AMERICAN BUSINESS IN THE U.S.-CHINA COMMERCIAL RELATIONSHIP 8, 16-18 (2006) [hereinafter U.S. CHAMBER OF COMMERCE].

19. *Id.* at 8, 15-23.

20. See *supra* pp. 218-19.

21. See generally WAYNE M. MORRISON, CHINA-U.S. TRADE ISSUES 20-21 (Cong. Research Serv., CRS Report for Congress Order Code RL 33536, July 11, 2007), available at <http://www.fas.org/sgp/crs/row/RL33536.pdf> (citing a representative of the Motion Picture Association of America for the proposition that "2005 losses from piracy in China were estimated at \$244 million" and citing the International Intellectual Property Alliance for the proposition that Chinese "piracy of music and recordings is estimated to have cost U.S. firms \$206 million in 2006 . . .") [hereinafter CRS Report]; *Intellectual Property Rights Issues and Imported Counterfeit Goods: Hearing Before the U.S.-China Econ. and Sec. Review Comm'n*, 109th Cong. (2006) (statement of Chris Israel, U.S. Coordinator for Int'l Intellectual Prop. Enforcement, Dep't of Commerce stating "[T]he theft of American intellectual property strikes at the heart of one of our greatest comparative advantages - our innovative capacity."), available at http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_06_07wrts/Chris_Israel.pdf.

22. See *infra* pp. 221-24.

23. Council for Trade-Related Aspects of Intellectual Property Rights, *Report to the General Council by the Chair: Transitional Review Under Section 18 of the Protocol on the Accession of the People's Republic of China*, IP/C/39 (Nov. 21, 2005).

about the high level of counterfeiting in China and the lack of comprehensive responses from China to the EU questions.²⁴ In addition, the United States reiterated its concerns over continuing problems in China's enforcement environment, including local protectionism, institutional deficiencies, over-reliance on weak administrative remedies, and the compatibility of China's criminal enforcement system with the TRIPS enforcement requirements,²⁵ discussed in detail in Part III. The United States stressed that IPR infringement in China remains widespread, indicating that the Chinese protection system remains non-deterrent, and reiterated the importance of criminal enforcement for all IP right holders in China and around the world.²⁶ Like the European Union, the United States expressed dissatisfaction with the sufficiency of the Chinese responses to its questions.²⁷

Moreover, the Report states Japan's concerns that "IPR enforcement in China was insufficient to deter further infringements, and IPR infringement in China continually caused serious damage to the industry of Japan and that of other countries, including that of China itself."²⁸ Japan emphasized the ineffectiveness of administrative sanctions and the importance of enhancing the criminal prosecution of IPR infringements, especially for repeat offenders.²⁹ Canada also expressed "increasing concerns over the public health and safety aspects of counterfeits and fakes"³⁰ and urged China to continue improving its IPR enforcement mechanisms.³¹

On the other hand, China communicated to the Council current modifications to its copyright, trademark, and patent laws, as well as

24. *Id.* ¶ 47-48.

25. *Id.* ¶ 49-60.

26. *Id.* The United States noted that "criminal procedures required decisions in writing, based on evidence, with a right to counsel, applied by independent judges trained in law, with a right of appeal, according to a clear process, based on proportionate sentencing standards, and other supporting legal structures. A non-deterrent administrative system could not achieve these purposes and could easily become self-serving and prejudicial against foreign rights, particularly when local laws required discriminatory treatment in favor of domestic right holders." *Id.* ¶ 58. Also, the United States expressed "concern that much of China's enforcement efforts appeared to be directed in favor of China's own companies." *Id.* ¶ 59.

27. *Id.* ¶ 60.

28. *Id.* ¶ 45.

29. *Id.* ¶¶ 44-46 (stating that "Japanese industry regarded the application of administrative sanctions against IPR infringement and the way in which Chinese governmental authorities addressed the cases as insufficiently effective and that, as a result, repeated infringement was rampant").

30. *Id.* ¶¶ 61-62.

31. *Id.*

changes to its regulation protecting undisclosed information, claiming that these modifications bring the relevant provisions in full compliance with the TRIPS requirements.³² China emphasized that it had strengthened IPR law enforcement by way of more effective administrative penalties.³³

The earlier TRIPS Council Report under Section 18 of China's Accession Protocol reveals the same concerns by China's trading partners and repeats China's assertions of progress in IPR enforcement, particularly through stronger administrative enforcement.³⁴

In the United States, the Chamber of Commerce Report of September 2006 on China's WTO implementation and the U.S.-China commercial relationship³⁵ provides an overview of the main concerns regarding China's WTO compliance and stresses the need for stronger IPR enforcement.³⁶ Specifically, the Report makes a detailed assessment of the current status of IPR protection in China and stresses the importance of IPR enforcement as a "cross-sectoral issue."³⁷ It alleges that the "IPR climate for most [U.S.] companies in China has not significantly improved over the last year, due to lack of adequate deterrence of intellectual property (IP) theft in the marketplace."³⁸ The Report continues, "if anything, the climate has worsened, as more and more small- and medium-sized enterprises (SMEs) complain of the dramatic impact of counterfeits on their businesses worldwide."³⁹

Moreover, the U.S. Chamber of Commerce Report provides specific recommendations on how to bring Chinese IP law system into compliance with WTO requirements.⁴⁰ These recommendations include the promotion of effective criminal deterrence,⁴¹ the enhancement of

32. Communication from China, *Transitional Review Mechanism of China*, IP/C/W/460 (Nov. 11, 2005).

33. *Id.*

34. See Council for Trade-Related Aspects of Intellectual Property Rights, *Report to the General Council by the Chair: Transitional Review Under Section 18 of the Protocol on the Accession of the People's Republic of China*, IP/C/34 (Dec. 9, 2004); Council for Trade-Related Aspects of Intellectual Property Rights, *Report to the General Council by the Chair: Transitional Review Under Section 18 of the Protocol on the Accession of the People's Republic of China*, IP/C/31 (Dec. 10, 2003).

35. U.S. CHAMBER OF COMMERCE, *supra* note 18.

36. See *id.* at 8.

37. See *id.* at 15-20.

38. *Id.* at 15.

39. *Id.*

40. *Id.* at 20-23.

41. *Id.* at 20-21.

administrative and civil remedies,⁴² the curbing of exports,⁴³ the improvement of market access,⁴⁴ the clarification of existing and the enactment of new IP legislation,⁴⁵ and the increase of transparency and collaboration with foreign experts.⁴⁶

For the United States, IPR enforcement is “one of China’s greatest shortcomings.”⁴⁷ In 2005, the United States conducted an out-of-cycle review under Special 301,⁴⁸ elevated China to the Special 301 “Priority Watch” list,⁴⁹ and began pursuing a more aggressive strategy in the U.S.-China Joint Commission on Commerce and Trade (JCCT)⁵⁰ meeting of July 2005 to induce China to take more serious steps towards IPR

42. *Id.* at 21-22.

43. *Id.* at 22.

44. *Id.*

45. *Id.* at 22-23.

46. *Id.* at 23.

47. U.S. TRADE REPRESENTATIVE, EXECUTIVE OFFICE OF THE PRESIDENT, U.S.-CHINA TRADE RELATIONS: ENTERING A NEW PHASE OF GREATER ACCOUNTABILITY AND ENFORCEMENT, TOP-TO-BOTTOM REVIEW 14 (2006) [hereinafter U.S. TRADE REPRESENTATIVE].

48. *Id.*

49. *Id.*; U.S. TRADE REPRESENTATIVE, PRIORITY WATCH LIST (2006), available at http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/2006_Special_301_Review/asset_upload_file353_9337.pdf; U.S. TRADE REPRESENTATIVE, 2006 SPECIAL 301 REPORT, EXECUTIVE SUMMARY (2006), available at http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/2006_Special_301_Review/asset_upload_file180_9335.pdf; see also INT’L INTELLECTUAL PROP. ALLIANCE [IIPA], 2006 SPECIAL 301 REPORT, PEOPLE’S REPUBLIC OF CHINA (PRC), 109 (Feb. 13, 2006), available at <http://www.iipa.com/rbc/2006/2006SPEC301PRC.pdf>. The IIPA recommends that USTR maintain China on the Priority Watch List. *Id.* at 109. The IIPA Report lists the following enduring problems with Chinese IPR enforcement: physical piracy remains rampant; internet piracy is growing rapidly; China is a mass producer of optical media for export; piracy of books and journals is widespread; and business software end-user piracy uncontrolled; and entertainment software and broadcast and cable and public performance piracy is rampant. *Id.* at 112-17. Also, the Report identifies the main problems with China’s legal framework, including the following: the criminal enforcement system remains non-deterrent; civil cases have not been effective in deterring counterfeiting or compensating the right holders; and ineffective market access due to Chinese government restrictions in ownership, investment, censorship, investigation, particularly with respect to the recording the motion picture industries and the book publishers. *Id.* at 117-22.

50. The U.S.-China Joint Commission on Commerce and Trade (JCCT) established in 1983 by the Chinese Minister of Foreign Economic Relations and Trade and the U.S. Secretary of Commerce, and since the end of 2003, led by Vice Premier Wu Yi on the Chinese side, and by the Secretary of Commerce and United States Trade Representative on the U.S. side. Also, key bilateral dialogues between United States and China are the following: The U.S.-China Joint Economic Committee (JEC), the Joint Liaison Group (JLG), the U.S.-China Economic Development and Reform Dialogue (State-NDRC Dialogue), and the Joint Committee on Cooperation in Agriculture (JCCA). See U.S. TRADE REPRESENTATIVE, *supra* note 47, at 24.

protection.⁵¹ In addition, in October 2005, the United States submitted the first ever request to China under TRIPS Article 63.3. The request, made in conjunction with similar requests by Japan and Switzerland, sought detailed information from China on its IPR enforcement efforts over the last four years.⁵²

The EU did not follow with its own Article 63.3 request. On October 5, 2006, however, the European Commission identified China “as the main priority for EU efforts in the fight against counterfeiting, accounting for two thirds of all counterfeit goods seized entering the EU.”⁵³ While the EU did not explicitly exclude the possibility of WTO action against IPR infringement, it maintained that it “is not creating a ‘black list,’ but looking to focus technical assistance and cooperation in the joint fight against piracy.”⁵⁴

In April 2007, the United States filed a formal complaint against China under TRIPS.⁵⁵ The EU and Mexico asked the WTO to participate as third parties in the U.S.-China consultations under the formal WTO dispute settlement procedures. The EU representatives stated: “[t]his is a case of great importance We will watch developments in these consultations with great interest” as the EU is China’s largest trading partner.⁵⁶ Upon failure of the required consultations between the parties, a WTO Panel would be established to resolve the dispute.⁵⁷

51. *Id.* at 14.

52. *Id.* The United States proceeded with the Article 63.3 request under TRIPS “because a lack of transparency on IPR infringement levels and enforcement activities in China has hampered the U.S.’ ability to assess the effectiveness of China’s efforts to improve IPR enforcement.” *Id.*

53. Press Release, European Comm’n, EU Business Survey Identifies Target Countries in Fight Against Counterfeiting (Oct. 5, 2006), available at http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130440.pdf [hereinafter European Comm’n, EU Business Survey]. The EU Business Survey identified China as category 1 of concern for counterfeiting. Specifically, it states that “China has been identified as the main priority for the EU. Indicators such as customs seizures show that alone it is responsible for around two thirds of infringing goods entering the EU. On the other hand, China is the country where the EU has established the most in-depth cooperation to address the problem.” *Id.*; see also Press Release, European Comm’n, Intellectual Property: IPR in China, (Oct. 2, 2006), available at http://ec.europa.eu/trade/issues/sectoral/intell_property/ipr_china_en.htm.

54. European Comm’n, EU Business Survey, *supra* note 53.

55. Request for Consultations by the United States, *China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, WT/DS362/1 (Apr. 16, 2007).

56. *EU, Mexico Seek to Join China WTO Talks*, INT’L HERALD TRIBUNE, May 1, 2007, available at www.iht.com/articles/ap/2007/05/01/business/EU-FIN-ECO-WTO-China-Piracy.php.

57. See Press Release, Office of the U.S. Trade Rep., United States Requests WTO Panel in Case Challenging Deficiencies in China’s Intellectual Property Rights Laws (Aug. 13, 2007),

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In light of the above considerations regarding China's compliance with its TRIPS obligations, Part III will examine the specific provisions of TRIPS and China's Accession Protocol and will look at the way they may come into play in the current U.S.-China dispute. Part IV will discuss some of the challenges the United States may face in bringing a TRIPS action against China and the potential consequences of such WTO complain for the multilateral trade system.

III. THE LEGAL SETTING OF THE PROBLEM WITH IPR PROTECTION IN CHINA

TRIPS provides WTO Members with ways to address their concerns over IPR enforcement in China. This part will discuss the TRIPS provision at issue, their interplay with the specific IPR provisions of the China Accession Protocol, and their potential applicability with respect to the IPR claims made by the United States and other WTO Members. The paper does not provide an exhaustive analysis of the many areas in which China's efforts have or have not satisfied particular TRIPS provisions or its Accession Protocol. Rather, by considering the claims now made by the parties in the TRIPS Council Reports and their other official documents, it provides a general overview of how TRIPS rules may come into play in the U.S.-China TRIPS case.

A. *The Relevant TRIPS Provisions*

TRIPS introduced IP protection into the multilateral trade system for the first time.⁵⁸ TRIPS rules cover the protections of trademarks, patents, copyrights, industrial designs, trade secrets, geographical indicators, and integrated circuit industrial designs.⁵⁹ It recognizes the varying IPR laws among WTO Members and the tensions that such differences may cause between trading partners.⁶⁰ Also, TRIPS sets

available at http://www.ustr.gov/Document_Library/Press_Releases/2007/August/United_States_Requests_WTO_Panel_in_Case_Challenging_Deficiencies_in_Chinas_Intellectual_Property_Rights_Laws.html; Daniel Pruzin, *Intellectual Property: China Slams US Complaint in WTO Over Intellectual Property Concerns*, 24 INT'L TRADE REP. 838 (June 14, 2007).

58. World Trade Organization, Understanding the WTO – Intellectual Property: Protection and Enforcement, available at http://www.wto.int/english/thewto_e/whatis_e/tif_e/agrm7_e.htm (last visited Sept. 24, 2007).

59. TRIPS, *supra* note 1, art. 1.2 (providing that “[f]or the purposes of this Agreement, the term ‘intellectual property’ refers to all categories of intellectual property that are the subject of Sections I through 7 of Part II.”); see also *id.* arts. 9-40.

60. The Preamble of the Agreement expresses the desire of the WTO members “to reduce distortions and impediments to international trade . . . promote effective and adequate protection of intellectual property rights, and . . . ensure that measures and procedures to enforce

minimum standards of protection⁶¹ and fills the gaps left by national IPR legislations.⁶² Most importantly, TRIPS provides for the systematic resolution of disputes according to the Dispute Settlement Understanding (DSU) provisions.⁶³ Consequently, the Agreement provides WTO Members with security and predictability and establishes IPR protection as an integral part of the WTO multilateral trade system.⁶⁴

Part III of the Agreement contains provisions covering the enforcement of IPR⁶⁵ and transparency requirements.⁶⁶ These provisions are primarily at issue in terms of the adequacy and effectiveness of IPR protection in China because they set WTO Members' general obligations⁶⁷ and the requirements regarding civil and administrative procedure and remedies,⁶⁸ provisional measures,⁶⁹ border measures,⁷⁰ and criminal procedures.⁷¹

TRIPS transparency requirements are set out in Article 63.⁷² This provision became particularly important with respect to concerns over

intellectual property rights do not themselves become barriers to legitimate trade." TRIPS, *supra* note 1, pmbli.; In addition, Articles 3 and 4 of the TRIPS Agreement require that WTO Members accord national treatment and most-favored-nation treatment to their WTO trading partners. Specifically, Article 3 states: "Each Member shall accord to the nationals of other Members treatment no less favorable than that it accords to its own nationals with regard to the protection of intellectual property . . ." TRIPS, *supra* note 1, art. 3; Article 4 provides that "[w]ith regard to the protection of intellectual property, any advantage, favour, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members . . ." TRIPS, *supra* note 1, art. 4; However, apart from the exceptions provided by Articles 3 and 4 themselves, Article 5 of TRIPS on multilateral agreements on acquisition and maintenance of protection states "[t]he obligations under Articles 3 and 4 do not apply to procedures provided in multilateral agreements concluded under the auspices of WIPO relating to the acquisition or maintenance of intellectual property rights." TRIPS, *supra* note 1, art. 5.

61. TRIPS, *supra* note 1, art. 1.1 (requiring that "Members shall give effect to the provisions of this Agreement. Members may, but shall not be obliged to, implement in their laws more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement").

62. *Id.*

63. *See* TRIPS, *supra* note 1, art. 64; *see also infra* note 154.

64. *See supra* notes 45-50 and accompanying text.

65. TRIPS, *supra* note 1, arts. 41-62.

66. *Id.* art. 63.

67. *Id.* art. 41.

68. *Id.* arts. 42-49.

69. *Id.* art. 50.

70. *Id.* arts. 51-60.

71. *Id.* art. 61.

72. *Id.* art. 63.

Chinese IPR, because in 2005 the United States, Japan, and Switzerland submitted Article 63.3 requests for information to China.⁷³ The Article provides that laws and regulations, final judicial and administrative decisions, and bilateral agreements pertaining to the availability, scope, acquisition, enforcement of IPR and prevention of IPR abuse must be published or made publicly available in the national language in a way that the right holders and other governments become aware of them.⁷⁴ In addition, IPR laws and regulations must be reported to the TRIPS Council.⁷⁵

Moreover, Article 63 provides that

“Each member shall be prepared to supply, in response to a written request from another Member, information [A] Member, having reason to believe that a specific judicial decision or administrative ruling or bilateral agreement in the area of intellectual property rights affects its rights under this Agreement, may also request in writing to be given access to or be informed in sufficient detail of such specific judicial decisions or administrative rulings or bilateral agreements.”⁷⁶

Article 63, however, excludes the disclosure of confidential information that “would impede law enforcement or otherwise be contrary to the public interest or would prejudice the legitimate commercial interests of particular enterprises, public or private.”⁷⁷

Regarding TRIPS general enforcement obligations, Article 41 requires that the IPR enforcement procedures “are available under the law so as to permit effective action against any act of infringement of intellectual property rights . . . including expeditious remedies to prevent infringement and remedies which constitute a deterrent to further infringements.”⁷⁸ These enforcement procedures must be fair and equitable, without being unreasonably complicated or costly or causing unreasonable delays by imposing unreasonable time limits.⁷⁹ Article 41 requires that decisions on the merits of a case be in writing providing the grounds for the decision and based on the evidence

73. See *supra* notes 8-12 and accompanying text.

74. TRIPS, *supra* note 1, art. 63.1.

75. *Id.* art. 63.2.

76. *Id.* art. 63.3.

77. *Id.* art. 63.4.

78. *Id.* art. 41.1.

79. *Id.* art. 41.2.

presented in the proceedings.⁸⁰ The decisions must be available to the parties and must be subject to review and appeal, with the exception of criminal acquittals.⁸¹

Article 42 requires that civil and administrative procedures and remedies be available to IP right holders.⁸² Defendants must receive written notice containing the basis of the claims against them, and parties have the right to counsel.⁸³ In addition, Article 42 requires that the procedures are not unnecessarily burdensome, such as requiring mandatory personal appearances, and that the proceedings provide the means for the legitimate protection of confidential information.⁸⁴

Articles 44 to 46 provide the remedies available to the IP right holders in case of infringement.⁸⁵ Article 44 allows the Member's authorities to issue injunctions to order a party to desist from infringement and to prevent entry of infringing goods in their territory.⁸⁶ An exception, however, is provided "in respect of protected subject matter acquired or ordered by a person prior to knowing or having reasonable grounds to know that dealing in such subject matter would entail an infringement of an intellectual property right."⁸⁷ Article 45 provides for the payment of adequate damages to the right holder if injury is caused by an infringer "who knowingly, or with reasonable grounds to know," committed the infringement.⁸⁸ Damages must include litigation expenses and attorney fees and may also include profits accrued "even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity."⁸⁹

Apart from damages and injunctions, Article 46 provides that "in order to create an effective deterrent to infringement," a Member's authorities must ensure that infringing goods are removed from the

80. *Id.* art. 41.3.

81. *Id.* arts. 41.3-41.4.

82. *Id.* art. 42; *see also id.* art. 49 (stating that "to the extent that any civil remedy can be ordered as a result of administrative procedures on the merits of a case, such procedures shall conform to principles equivalent in substance to those set forth in this Section."); Also note that under Part III of TRIPS, the term "right holder" includes federations and associations having legal standing to assert such right. TRIPS, *supra* note 1, at n.11.

83. *Id.* art. 42.

84. *Id.*; *see also id.* art. 43 (stating the requirements regarding evidence presented by the parties in the judicial proceedings).

85. *Id.* arts. 44-46.

86. *Id.* art. 44.1.

87. *Id.*

88. *Id.* art. 45.1.

89. *Id.* art. 45.2.

market and are destroyed, without compensation to the infringer.⁹⁰ Likewise, the means of producing the infringing goods should be removed from the stream of commerce to minimize the risks of further infringement without compensation.⁹¹ In case of trademark infringement, Article 46 specifically states that removal of the infringing mark is not enough and the goods should not return in the stream of commerce unless exceptional circumstances exist.⁹² In considering such remedies, Article 46 advocates the application of the standard of proportionality between the injury and the remedy, with the interests of third parties in mind.⁹³

Also, the national authorities of WTO Members may impose “prompt and effective” provisional measures to prevent infringing goods from entering the stream of commerce, including imported goods immediately after customs clearance, to preserve evidence of the alleged infringement, and to avoid delays that would cause irreparable harm to the right holder.⁹⁴

Customs procedures are covered under Articles 51 thru 60 and in general provide that the right holder must file an application in writing requesting the detention of infringing goods and must also provide adequate evidence of *prima facie* infringement.⁹⁵ Available remedies are stated in Article 59, which provides for judicial review and destruction of infringing goods.⁹⁶ Re-exportation of counterfeit trademark goods is specifically prohibited.⁹⁷

Article 61 applies to criminal procedures for IPR infringement.⁹⁸ It states that “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.”⁹⁹ Available remedies must include imprisonment and/or monetary fines sufficient to provide a deterrent.¹⁰⁰ Remedies may also include seizure, forfeiture, and destruction of infringing goods and the means for their production.¹⁰¹

90. *Id.* art. 46.

91. *Id.*

92. *Id.*

93. *Id.*

94. *Id.* art. 50.

95. *Id.* arts. 51-60.

96. *Id.* art. 59.

97. *Id.*

98. *Id.* art. 61.

99. *Id.*

100. *Id.*

101. *Id.*

Lastly, TRIPS Article 64 invokes Articles XXII and XXIII of the GATT,¹⁰² which allow WTO Members to bring non-violation claims.¹⁰³ Article XXII of the GATT requires consultations regarding disputes among WTO Members.¹⁰⁴ Article XXIII of the GATT states that a WTO Member may bring action when

“any benefit accruing to it directly or indirectly under this Agreement is being nullified or impaired or that the attainment of any objective of the Agreement is being impeded as the result of (a) the failure of another contracting party to carry out its obligations under this Agreement, or (b) the application by another contracting party of any measure, whether or not it conflicts with the provisions of this Agreement, or (c) the existence of any other situation.”¹⁰⁵

At present, however, WTO Members have agreed not to use non-violation complaints under TRIPS. According to Article 64.2 this “moratorium” was to last for the first five years of the WTO (that is until 1999),¹⁰⁶ but has been extended since then, and for the time being the moratorium is still in place.¹⁰⁷

B. *China Accession Protocol IPR Provisions*

In its WTO Accession Protocol, China made special commitments regarding IPR protection in addition to its WTO obligation of national treatment, most favored nation, and transparency.¹⁰⁸ Specifically, China’s Accession Protocol provides for the amendment of existing laws or

102. *Id.* art. 64.1.

103. *Id.* art. 64. A non-violation complaint is allowed when one government can show that it has been deprived of an expected benefit because of another government’s action, or because of any other situation that exists.

104. General Agreement on Tariffs and Trade, Oct. 30, 1947, 61 Stat. A-11, 55 U.N.T.S. 194, art. XXII [hereinafter GATT].

105. GATT, *supra* note 104, art. XXIII.

106. *See* TRIPS, *supra* note 1, art. 64.2; *see also* Non-Violation Complaints (Art. 64.2): Background and the Current Situation, *available at* http://www.wto.org/english/tratop_e/trips_e/nonviolation_background_e.htm (last visited Sept. 23, 2007).

107. *See* World Trade Organization, Ministerial Declaration of 18 December 2005, ¶ 45, WT/MIN(05)/DEC (2005), *available at* http://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.pdf.

108. *See* China Accession Protocol, *supra* note 17, Pt. I(2)(C) (stating the transparency provision, which requires the availability of information upon request and the publication of laws and regulations, and the provision of a reasonable period for comment regarding new regula-

adoption of new ones in order to bring the Chinese IPR laws “in full compliance with and full application of the TRIPS Agreement and the protection of undisclosed information.”¹⁰⁹ In addition, the same part provides for “enhanced IPR enforcement efforts through the application of more effective administrative sanctions.”¹¹⁰

Arguably, this last sentence may be read to constitute a derogation of China’s obligations under TRIPS, as it provides for stronger administrative remedies in relation to civil or criminal penalties. As will be discussed below in more detail, this has been a contentious issue; the United States stresses the need for stronger criminal and civil penalties regarding IPR infringements in China, while China responds that it has complied with TRIPS requirements through stronger administrative penalties.¹¹¹

C. *Conflicting Claims of the Parties*

In its formal WTO complaint, the United States makes sweeping claims regarding the enforcement of IPR protection in China. Its complaint alleges that China is in violation of TRIPS Articles 41 and 61 because of the lack of criminal procedures and penalties for commercial scale counterfeiting and piracy and for persons who engage in either unauthorized reproduction or unauthorized distribution of copyrighted works; Articles 46 and 59 with respect to the disposal of confiscated infringing goods; and Articles 3, 9, and 14 because of the denial of copyright and related rights protection and enforcement to works that have not been authorized for publication or distribution within China.¹¹²

Moreover, questions may arise regarding China’s compliance with its Protocol of Accession commitments regarding effective IPR enforcement. In its Accession Protocol, among other things, China committed to administer its IPR laws in a uniform, impartial, reasonable, and transparent manner.¹¹³ Also, regarding its IPR regime, China committed to bring its IPR system into full compliance with all the TRIPS

tions); *see id.* Annex 1A Pts. II and VI (containing the non-discrimination requirements and IPR provisions, respectively).

109. China Accession Protocol, *supra* note 17, Annex 1A, Pt. VI(a).

110. *Id.* Annex 1A Pt. VI(b).

111. Pruzin, *supra* note 57, at 838.

112. Request for Consultations by the United States, *China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, WT/DS362/1 (Apr. 16, 2007).

113. China Accession Protocol, *supra* note 17, pt. I, § 2.

provisions.¹¹⁴ In the immediate following sentence, however, China committed to strengthen its IPR system through more effective administrative sanctions.¹¹⁵ This last sentence casts doubt over what constitutes full compliance, especially since the current debate over China's IPR centers around the availability of criminal and civil over administrative remedies.

On its part, China may advance as a defense its current status as a developing economy in transition. China claimed developing country status when it joined the WTO.¹¹⁶ Such status, however, does not provide China with a transition or extension period for compliance with TRIPS.¹¹⁷ China has made tremendous reforms to its legal system with respect to IPR protection and has improved significantly its IPR enforcement mechanisms.¹¹⁸ The piracy rates, however, are allegedly still high, cause economic harm to legitimate right holders, and create resentment for the Chinese IPR system.¹¹⁹ China has argued that its potential deficiencies in full TRIPS compliance are due to insufficient education of the public regarding IPR,¹²⁰ lack or inadequate training of the judges or other IPR administrators,¹²¹ and the overall need of the Chinese economy to adapt

114. *Id.* at Annex 1A, § VI(a).

115. *Id.* at Annex 1A, § VI(b).

116. *See* China Accession Protocol, *supra* note 17.

117. TRIPS Article 65 provides for transitional arrangements concerning developing countries. Specifically, it states that developing countries can delay compliance with certain TRIPS obligations for four years. *See* TRIPS, *supra* note 1, art. 65. However, this time allowance has already expired as it runs from the day of entry into force of the WTO Agreement. *See id.* Consequently, such provision has currently no force and China may not use it as an excuse for delaying its compliance with TRIPS. Nevertheless, China argues that WTO countries should "take a more developmental perspective on Chinese IPR." Council for Trade-Related Aspects of Intellectual Property Rights, *supra* note 23, ¶ 65.

118. *See* Pascal Lamy, Dir. Gen., World Trade Organization, Address in Shanghai on China's fifth year of WTO membership (Sep. 6, 2006) (transcript available at http://www.wto.org/english/news_e/sppl_e/sppl33_e.htm) (noting that in the area of IPR China has made significant progress but there is still a lot to be done).

119. "China continues to be the single biggest source of counterfeit product worldwide, and the steps taken by the Chinese government and judiciary over the last year to reduce counterfeiting and piracy have not yet achieved significant and necessary reductions in the level of infringements." INT'L ANTI-COUNTERFEITING COALITION, INC., SUBMISSION OF THE INTERNATIONAL ANTI-COUNTERFEITING COALITION, INC., TO THE UNITED STATES TRADE REPRESENTATIVE, SPECIAL 301 RECOMMENDATIONS 13 (2006); *see also* U.S. CHAMBER OF COMMERCE, *supra* note 18.

120. Press Release, Information Office of the State Council of the P.R.C., New Progress in China's Protection of Intellectual Property Rights (Apr. 20, 2005), *available at* English.gov.cn/official/2005-07/28/content_18131.htm.

121. *See id.*

to the new global market requirements.¹²²

The United States and other WTO Members recognize that some of China's difficulties are due to its transition into a market economy.¹²³ The United States conducted a series of dialogues and bilateral negotiations to assist China in its IPR reforms,¹²⁴ and, at the same time, to ensure that China does not use its transitory state as a pretext to avoid implementing necessary reforms. Thus, China's status as an economy in transition justifies its difficulties with TRIPS compliance only to a certain extent and does not exonerate the country from its burden to fully comply with its TRIPS obligations.

In response to U.S. claims regarding transparency requirements under Article 63 and the Accession Protocol, China argues that it is in full compliance with both. China's trading partners, however, disagree.¹²⁵ China argues that its relevant laws, regulations, and judicial decisions are made public.¹²⁶ China asserts that its oral administrative decisions, which are unrecorded and publicly unavailable, are still in compliance, as no requirements exist to have such decisions recorded or public.¹²⁷ Others, however, argue that TRIPS requires administrative decisions to be recorded in order to afford interested parties

122. The United States acknowledged that “[m]any of the shortfalls of China’s implementation and compliance efforts stem from China’s incomplete transition from a state-planned to a market economy. Not all Chinese officials or government departments have fully embraced the key WTO principles of market access, non-discrimination, and national treatment, nor has the Chinese government fully institutionalized market mechanisms and made its trade regime predictable and transparent.” U.S. TRADE REPRESENTATIVE, *supra* note 47, at 15.

123. See CRS Report, *supra* note 21, at 21-22.

124. See U.S. TRADE REPRESENTATIVE, *supra* note 47.

125. See Council for Trade-Related Aspects of Intellectual Property Rights, *supra* note 23.

126. See *id.*

127. China reiterates that requesting the Chinese administrative agencies to publish all administrative decisions “was not a legitimate request under TRIPS Agreement or under China’s other commitments, and China had no obligation to do so.” Council for Trade-Related Aspects of Intellectual Property Rights, *supra* note 23, ¶ 18; Under the *India-Patents* case, however, the Panel found that “a mechanism for receiving mailbox applications is, whether made affective by law or through administrative practice, a measure of ‘general application’ within the meaning of Article 63.1.” The Panel cites the *Underwear* case where the Panel found that under Article X of the GATT of 1994 “to the extent that a measure ‘affects an unidentified number of economic operators, including domestic and foreign producers,’ it is a measure of general application.” Panel Report, *India—Patent Protection for Pharmaceutical and Agricultural Chemical Products*, WT/DS50/R (Sept. 5 1997); see also Appellate Report, *India—Patent Protection for Pharmaceutical and Agricultural Chemical Products*, WT/DS50/AB/R (Dec. 19, 1997). Panel Report, *United States—Restrictions on Imports of Cotton and Man-Made Fibre Underwear*, ¶ 7.65, WT/DS24/R (Nov. 8, 1996). Also, the Appellate Body upheld this decision. See Appellate Report, *United States—Restrictions on Imports of Cotton and Man-Made Fibre Underwear*, WT/DS24/AB/R (Feb. 27, 1997).

opportunity to comment.¹²⁸ In general, while other WTO Members express doubt, China maintains that it is in compliance with its TRIPS obligations concerning transparency.¹²⁹

Interestingly, the requests for information submitted under Article 63.3 revealed a different view of the general debate over China's compliance with the TRIPS requirements. China responded promptly to the Article 63.3 requests for information regarding specific cases of IPR enforcement between 2001 and 2004 and alleged that it has fulfilled its transparency obligations by making the information on relevant cases and enforcement of IPR legislation publicly available.¹³⁰ In response, the United States claimed that China's response provides insufficient information. Chinese commentators disagreed with such claims and reasoned that in its request the United States failed to provide "the reasons and facts . . . to prove that it has 'reason to believe . . . its rights [are affected] under the agreement,'" and also that "cases of intellectual property rights enforcement identified by China for the years 2001 through 2004 and other relevant cases' are not 'a specific case'" as required under Article 63.3.¹³¹ Such responses against allegations for lack of transparency may raise issues concerning the propriety of the request submitted. If the U.S. request for information did not meet TRIPS Article 63 request requirements, the U.S. claim regarding lack of transparency may be invalid.

Furthermore, China claims that it is in compliance with the administrative and civil proceeding requirements under Article 42 and the transparency requirements under Article 63.¹³² It states that its administrative system, which includes customs procedures, is effective in addressing the counterfeiting problem, thus ignoring U.S. pleas for more criminal cases.¹³³ China argues full compliance with the TRIPS

128. *Id.*; See generally U.S. CHAMBER OF COMMERCE, *supra* note 18.

129. *Id.*; see also Council for Trade-Related Aspects of Intellectual Property Rights, *Report to the General Council by the Chair: Transitional Review Under Section 18 of the Protocol on the Accession of the People's Republic of China*, IP/C/34 (Dec. 9, 2004); Council for Trade-Related Aspects of Intellectual Property Rights, *Report to the General Council by the Chair: Transitional Review Under Section 18 of the Protocol on the Accession of the People's Republic of China*, IP/C/31 (Dec. 10, 2003).

130. Yang Guohua, Counselor for Intellectual Prop., Embassy of the P.R.C. in the U.S., *A Debate on Transparency—Different Views on Article 63.3 of the WTO TRIPS Agreement* (May 12, 2006) (unpublished talking points), available at <http://cniss.wustl.edu/publications/guohua1.pdf>.

131. *Id.* at 3.

132. *See id.*

133. Press Release, Information Office of the State Council of the P.R.C., *supra* note 120; see also Council for Trade Related Aspects of Intellectual Property Rights, *Report to the General Council*

requirements on civil proceedings,¹³⁴ while IP right holders claim that available remedies are inadequate to compensate expenses and injury incurred.¹³⁵ China also asserts full compliance with the TRIPS obligations regarding self-initiated investigations and sufficient enforcement actions.¹³⁶

Specifically, with respect to customs controls under TRIPS Articles 50 thru 60, China argues that such controls have been strengthened.¹³⁷ It claims that such progress is due to stronger administrative penalties and information exchange with the United States.¹³⁸ The number of counterfeit products exported from China and those circulating in the Chinese market, however, constitute strong evidence of insufficient IPR enforcement and/or infringement deterrence on the Chinese borders.¹³⁹ China advances, as a great IPR enforcement success story, a counterfeit scheme organized by an American citizen that was uncovered by information provided by U.S. authorities.¹⁴⁰ Without such information and U.S. cooperation, the illegal activity would not have been uncovered.¹⁴¹

In general, China argues that, even though progress is to be made, it is in compliance with most of the requirements set in TRIPS and its

by the Chair: *Transitional Review Under Section 18 of the Protocol on the Accession of the People's Republic of China*, IP/C/34 (Dec. 9, 2004), ¶ 76.

134. Council for Trade Related Aspects of Intellectual Property Rights, *Report to the General Council by the Chair: Transitional Review Under Section 18 of the Protocol on the Accession of the People's Republic of China*, IP/C/34 (Dec. 9, 2004), ¶¶ 68-69.

135. See U.S. CHAMBER OF COMMERCE, *supra* note 18, at 19.

136. Press Release, Information Office of the State Council of the P.R.C., *supra* note 120.

137. See Council for Trade Related Aspects of Intellectual Property Rights, *supra* note 23.

138. Council for Trade Related Aspects of Intellectual Property Rights, *Report to the General Council by the Chair: Transitional Review Under Section 18 of the Protocol on the Accession of the People's Republic of China*, IP/C/34 (Dec. 9, 2004), ¶¶ 76-77.

139. See *U.S. Advances China IPR Case as Mid-Year Data Shows Jump in Counterfeit Seizures*, Business Alert – U.S. (H.K. Trade Development Council, Hong Kong, P.R.C.), Aug. 31, 2007, available at <http://www.tdctrade.com/alert/us0718a.htm> (providing data recently released by U.S. Customs and Border Protection showing the value of the agency's seizures of IPR infringing articles as of the middle of fiscal year 2007, which is significantly higher from last year's); See U.S. CHAMBER OF COMMERCE, *supra* note 18, at 16.

140. China basically argues, "IPR infringement activities in China were increasingly being organized by foreign investors or criminals who sought to profit from these illegal activities." Council for Trade Related Aspects of Intellectual Property Rights, *supra* note 23, ¶ 64; Press Release, Information Office of the State Council of the P.R.C., *supra* note 120.

141. Press Release, Information Office of the State Council of the P.R.C., *supra* note 120.

Accession Protocol.¹⁴² Other WTO Members, however, argue that TRIPS provides for minimum requirements which comprise a floor and not a ceiling as to what constitutes adequate IPR protection.¹⁴³ Contrary to what China claims, other WTO Members consider that China's IPR framework may meet the minimum requirements on paper, but that in practice, it lacks adequate enforcement and has weak deterrent effect on infringing activity. Consequently China is in violation of its TRIPS obligations.¹⁴⁴

These contrasting views led to the failure of the U.S.-China consultations that took place as part of the formal WTO dispute settlement procedures upon the filing of the U.S. complaint against Chinese IPR.¹⁴⁵ In this respect, Chinese officials stated that "China strongly opposes any attempt by any other WTO Member to impose additional obligations beyond the TRIPS Agreement through inappropriate application of the WTO dispute settlement mechanism, and believes that the impact resulting from there would by no means be accepted by other developing members."¹⁴⁶ They also "regrettably noted that the U.S. had failed to correctly understand China's legal system and basic concepts concerning IPR protection."¹⁴⁷ The Office of the USTR did not comment on the consultations¹⁴⁸ and on August 13, 2007 submitted a formal request for the establishment of a WTO Panel to hear the case.¹⁴⁹

IV. CONSIDERATIONS FOR BRINGING A TRIPS CASE AGAINST CHINA

According to U.S. sources, launching a complaint against China for lack of IPR enforcement is a very challenging and complicated task that may have enormous consequences for the multilateral trade system.¹⁵⁰ Part III showed the difficulty of framing the claims against China's IPR

142. See *China, U.S. Hold Consultations on IPR Protection*, Xinhua News Agency, June 9, 2007, available at http://news.xinhuanet.com/english/2007-06/09/content_6220030.htm; Council for Trade Related Aspects of Intellectual Property Rights, *supra* note 23.

143. U.S. Chamber of Commerce Report, *China's WTO Implementation and Other Issues of Importance to American Business in the US-China Commercial Relationship*, September 2006.

144. See *id.* at 8, 15-23.

145. See Pruzin, *supra* note 57, at 838.

146. *China, U.S. Hold Consultations on IPR Protection*, *supra* note 142.

147. *Id.*

148. Pruzin, *supra* note 57, at 838.

149. See Office of the U.S. Trade Rep., *supra* note 57.

150. See CRS Report, *supra* note 21, at 23 (stating that: "The U.S. WTO cases on China's IPR regime represent the most comprehensive and complex cases the United States has filed against any WTO to date").

enforcement under TRIPS. This Part will discuss the potential consequences of a formal WTO complaint against China, taking into consideration the potential results of such action. It will demonstrate that a TRIPS case against China presents many challenges not only for the parties involved, but also for the multilateral trade system itself, which may raise questions as to whether the case is ripe.

A. *Preliminary Considerations*

No previously filed TRIPS cases assert IPR enforcement claims similar to those now made against China.¹⁵¹ Of these cases, those that reached the Panel or the Appellate Body (AB) were decided on very narrow grounds as they mostly concerned TRIPS violations regarding the lack of pertinent domestic laws or regulations.¹⁵² This precedent will be useful with respect to some but not all claims now made against Chinese IPR protection. Currently, no direct precedent exists regarding the particular TRIPS enforcement provisions at issue, which may help clarify some of the terms of the Agreement and guide the parties involved in the current case.¹⁵³

Apart from the lack of precedent or sufficiently relevant case law to elaborate on the TRIPS language and definitions, a significant issue in an action against China for ineffective IPR enforcement is the fine distinction between violation and non-violation complaints under TRIPS. Both types of complaints can be adjudicated under the DSU,¹⁵⁴ the former as a clear breach of the TRIPS requirements, while the latter is on the basis of a nullification or impairment of a benefit for which the complaining Member had a reasonable expectation. Due to the continuation of the moratorium, however, WTO Members cannot use TRIPS Article 64, which provides for non-violation complaints by referencing Article XXIII of the GATT.¹⁵⁵ Accordingly, the classification of the complaint against China as violation or non-violation affects

151. *See id.*

152. *See id.*

153. *See id.*

154. Understanding on Rules and Procedures Governing the Settlement of Disputes, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, Legal Instruments – Results of the Uruguay Round, 33 I.L.M. 1125 (1994) [hereinafter DSU]; TRIPS, *supra* note 1, art. 64; GATT, *supra* note 104, art. XXIII.

155. *See supra* note 103. Currently, the Hong Kong Declaration renewed the moratorium for another year. Nevertheless, it is important to note that the U.S. may choose to block the renewal of the moratorium when this is discussed again in the next WTO meeting, however advisable such blockage may be from a strategic point of view.

a potential challenge in its initial stages and may prevent such challenge altogether.

The distinction between violation and non-violation complaints becomes important because of “the nuanced nature of intellectual property laws”¹⁵⁶ under TRIPS, which provides only for minimum standards. This may result in legislation that, in writing, appears to be in conformity, but, in practice, lacks bite.¹⁵⁷ Because intellectual property is intangible property and, thus different in nature than goods covered under the other WTO Agreements, the absence of a definite set of rules except for minimum standards creates significant problems as to what right is covered under the rule, what is the “best rule,” and what is the minimum standard.¹⁵⁸ The last seems to be the issue with IPR protection in China. U.S. right holders claim that the new legislation is under-deterrent and provides inadequate remedies.¹⁵⁹ China responds that its IPR laws are in full compliance with the TRIPS requirements.¹⁶⁰ The text of TRIPS does not provide guidance on this matter, as it only states that its provisions constitute minimum standards without defining the enforcement standards in quantifiable terms. Consequently, it is difficult to prove the breach of a rule, when there is doubt as to what the rule is.

Assuming that the dividing line between a violation and a non-violation complaint is resolved and it is shown that China’s enforcement of IPR constitutes a violation, then the DSU provisions will govern the settlement of the dispute.¹⁶¹ The WTO dispute settlement procedure includes four steps. First, parties must attempt to resolve their differences through consultations. Second, if consultations fail, the complaining Member may request the establishment of a Panel.¹⁶² The current U.S. case against Chinese IPR is at this stage. Third, after the Panel issues its decision, the dispute may be appealed to the Appellate Body.¹⁶³ Finally, if the complaining party succeeds and a violation is found, then the Dispute Settlement Body (DSB) is charged with

156. Rochelle Cooper Dreyfuss & Andreas F. Lowenfeld, *Two Achievements in the Uruguay Round: Putting TRIPS and Dispute Settlement Together*, 37 VA. J. INT’L L. 275, 282 (1997).

157. *Id.* at 281-83.

158. *See id.* at 281-83, 331-33.

159. *See* U.S. CHAMBER OF COMMERCE, *supra* note 18, at 8, 15-23.

160. Pruzin, *supra* note 57, at 838; *China, U.S. Hold Consultations on IPR Protection*, *supra* note 142.

161. *See* DSU, *supra* note 154, art. 1, app. 1.

162. *Id.* art. 4.

163. *Id.* arts. 17.1, 17.4.

monitoring the implementation of its recommendations.¹⁶⁴ If the recommendations are not implemented, negotiated compensation or authorization to withdraw concessions may occur.¹⁶⁵ Accordingly, in an action challenging China's IPR enforcement, the question is whether China will be found to be in violation of the relevant TRIPS provisions. If so, the issue becomes whether China will comply with the DSB recommendations.

A challenge against China's IPR protection is unlike other potential WTO challenges against China both in terms of inducing compliance under the threat of a formal complaint and in terms of achieving an agreement during the initial consultations under the DSU. Currently, China is engaged in extensive bilateral discussions with the United States and EU regarding improvements of its IPR protection system.¹⁶⁶ In particular, the United States and China established the JCCT, and other bilateral agencies, to deal with trade issues, including IPR.¹⁶⁷ The JCCT is the most comprehensive bilateral mechanism addressing the Chinese IPR problem and has led to further Chinese commitments for improved legislation and enforcement, some of which are already implemented.¹⁶⁸ Through the JCCT and other bilateral dialogue schemes, China is under pressure and tries to address the concerns of its trading partners regarding its IPR system.¹⁶⁹ With this in mind, it is questionable whether negotiations under the threat of a formal WTO action can bring more progress than negotiations already taking place in the bilateral level.

The United States may refer to a recent case in which China removed the offending measure under the threat of a formal WTO action. This case, however, arguably has few similarities with a TRIPS complaint against China. In January 2006, when the United States informed China that it would file a formal DSU request to challenge Chinese antidumping duties on U.S. imports of unbleached kraft linerboard, China rescinded the antidumping duties.¹⁷⁰ Unlike the claims of product-specific dumping duties imposed by China, however, claims

164. *Id.* art. 21.

165. *Id.* art. 22.1.

166. Press Release, European Comm'n, *Intellectual Property: IPR in China* (Oct. 2, 2006), available at http://ec.europa.eu/trade/issues/sectoral/intell_property/ipr_china_en.htm.

167. See U.S. TRADE REPRESENTATIVE, *supra* note 47.

168. See *id.*

169. See *id.*

170. U. S. TRADE REPRESENTATIVE, EXECUTIVE OFFICE OF THE PRESIDENT, 2006 REPORT TO CONGRESS ON CHINA'S WTO COMPLIANCE 5 (2006).

regarding inadequate IPR enforcement are not governed by similarly detailed rules but by minimum standards.

In addition, the alleged TRIPS violations cannot be cured by the mere removal of a measure, like an antidumping violation, because the problem with Chinese IPR does not relate to an offending measure but rather to an alleged inadequate enforcement of provisions, which are otherwise in compliance with the TRIPS Agreement.¹⁷¹ An action under TRIPS for inadequate IPR enforcement bears little, if no, resemblance to a complaint under the Antidumping Agreement because of the very different nature of the claims at issue. Therefore, the above U.S. example offers little support to a potential argument that the threat of a formal TRIPS complaint against China may induce the Chinese authorities to remedy alleged IPR violations. Above all, the recent failure of the formal WTO consultation between the parties highlights these considerations and demonstrates the complexity of the case.

B. *What If China Prevails*

Apart from the limited deterrent effect that the threat of a formal WTO challenge seems to have, bringing a TRIPS complaint against China presents many challenges mainly because it does not necessarily mean that the United States will prevail. Just because the United States claims that the Chinese IPR enforcement is ineffective, it does not mean that this is actually the case. Arguably, the DSB will face a challenge in clarifying what the minimum enforcement standard of TRIPS actually is and then applying it in the case of Chinese IPR. The United States acknowledges that the Chinese IPR legislation is in compliance with TRIPS and mainly disputes the thresholds for the imposition of criminal penalties and the adequacy of the various monetary penalties imposed by the Chinese authorities.¹⁷² TRIPS, however, provides only for minimum standards and not for “best rules.”¹⁷³ Arguably, Chinese IPR provisions may constitute sufficient minimum standards under TRIPS, despite claims that Chinese IPR could be more effective, thus better or best, if some changes were made. In this context, China may meet the TRIPS requirements and, consequently, U.S. allegations regarding inadequate IPR enforcement in China would fail.

171. See Press Release, U.S. Dept. of State, Bureau of Int'l Info. Programs, Intellectual Property Enforcement High on U.S.–China Agenda (May 19, 2005), available at <http://usinfo.state.gov/eap/Archive/2005/May/19-694355.html>; see also *supra* pp. 221-24.

172. See Council for Trade-Related Aspects of Intellectual Property Rights, *supra* note 23, ¶¶ 55-59.

173. See TRIPS, *supra* note 1, art. 1.1.

A panel report finding that China is not in violation of the TRIPS requirements may have consequences for the WTO multilateral system. More likely than not, a finding that the current Chinese IPR enforcement system satisfies the TRIPS obligations will be based on an interpretation of the Agreement that clarifies the requirements regarding minimum standards of enforcement. Such an interpretation could conflict with U.S. arguments on what constitutes adequate deterrent effect. This could have a strong impact on the credibility of TRIPS because it directly affects the way the Agreement is applied.

Both the credibility and reliability of TRIPS may be at stake if the Panel finds no violation regarding Chinese IPR. The case against China will be the first WTO case dealing with substantive TRIPS enforcement issues, including the standard of adequate IPR enforcement. Arguably, developing countries will benefit from an interpretation and application of TRIPS that sets only minimum standards, as such standards will be easier to satisfy. On the contrary, for developed countries, which constitute the majority of IP right holders, a low threshold would provide inadequate IPR protection outside their borders. In addition, WTO Members could consider it necessary to negotiate stricter IPR protection as part of the multilateral trade system in order to deal with issues that such TRIPS interpretation may create regarding developing countries' compliance. Lastly, a finding that China's IPR enforcement is not in violation and which sets a very low compliance threshold or affords WTO Members great prosecutorial discretion in IPR enforcement discourages similar cases to be filed and diminishes potential recourse to the DSU.

C. *Challenges If China Is In Violation*

Another challenge for such a complaint is the possibility that China may not comply with DSB recommendations even if it were found to be in violation of TRIPS. Compliance with a negative DSB finding would mean that China must bring its IPR laws in full compliance with the WTO rules.¹⁷⁴ China would have to indicate to the DSB what action it plans to take in order to comply.¹⁷⁵ If immediate implementation of the DSB recommendations is impracticable, then implementation is required within a reasonable time under DSU Article 21.3.¹⁷⁶ The reasonable period of time is normally set by agreement between the

174. DSU, *supra* note 154, art. 19.

175. *Id.* art. 21.3.

176. *Id.*

parties or absent such agreement by arbitration.¹⁷⁷ The reasonable time does not usually exceed fifteen months, with the average time being eight to ten months.¹⁷⁸ China would have a very short period of time to bring its relevant laws in compliance, unless otherwise agreed to by the United States. Even if the U.S. challenge is successful and extensions are granted, the time for compliance will still be short given the nature and magnitude of the changes that would need to be made in the Chinese IPR enforcement framework. Thus, arguably, China may not be able to comply within the reasonable time, which, in turn, may lead to retaliation by the United States.

Moreover, even if China complies within that short time, disagreement among the parties about whether the newly implemented measures are consistent with its TRIPS obligations may arise. In such case, DSU Article 21.5 requires the DSB, preferably the original panel to the dispute, to resolve the disagreement.¹⁷⁹ If inconsistency is found and China does not bring its IPR system in compliance with TRIPS, then DSU Article 22.2 provides for the parties to agree on an acceptable compensation for the prevailing party.¹⁸⁰ If the parties cannot agree, the prevailing party can retaliate against China, upon DSB authorization.¹⁸¹

Retaliation or suspension of concessions is not punitive because “the level of suspension of concessions or other obligations authorized by the DSB shall be equivalent to the level of nullification of impairment.”¹⁸² Retaliation must first occur with respect to the same sector in which the violation was found. It is possible, however, that it would be unrealistic for the United States to suspend IPR protection of Chinese goods due to practical considerations. Consequently, retaliation could occur under another WTO Agreement, affecting a different trading area, after an arbitration process on the amount of sanctions and the permissibility of cross-retaliation. Thus, after a time-consuming and in many respects costly process, the outcome of a TRIPS complaint against China could be retaliation by the United States in another sector of the Chinese economy, which would have little, if no, substan-

177. *Id.*

178. *Id.*; JOHN H. JACKSON ET AL., LEGAL PROBLEMS OF INTERNATIONAL ECONOMIC RELATIONS 266 (4th ed. 2002).

179. DSU, *supra* note 154, art. 21.5.

180. *Id.* art. 22.2.

181. *Id.*; *see also* Jackson, *supra* note 178, at 270 (discussing three cases where non-compliance has been found or admitted and retaliation has been authorized: EC-Bananas, EC-Hormones, and Brazil Aircraft Subsidies).

182. DSU, *supra* note 154, art. 22.4.

tive impact on Chinese IPR enforcement.¹⁸³

With the above considerations in mind, one wonders if the United States is better off waiting for China to bring its IPR protection system into compliance. The question of framing a justiciable complaint against China relates not only to the issue of violation versus non-violation claims but also to considerations of ripeness of the claims.¹⁸⁴ Considering that China is currently an economy in transition and that all interested parties, including the United States, recognize the difficulties and time needed for implementing an IPR system in China from scratch, it seems that bringing a TRIPS challenge against China at this time may be premature. China may legitimately need more time for bringing its IPR system into compliance with the TRIPS enforcement provisions.¹⁸⁵ Arguably, the exhaustion of all possible bilateral tools will demonstrate that the United States is not motivated by a protectionist sentiment and, consequently, may provide its cause with even more legitimacy. Eliminating some of the contentious political dimensions of the dispute may be appropriate in light of the current debate over IPR protection in the developing world. Consequently, a TRIPS challenge against China at this time may be premature.

Moreover, this case will not only set a precedent, but also will affect the way the TRIPS enforcement provisions are interpreted and applied under the WTO. In order to find a violation, the DSB will need to clarify the minimum standards prescribed under the relevant TRIPS provisions.¹⁸⁶ In doing so, this clarification may set the standard too

183. Arguably, inducing IPR compliance by bringing China into shame with a formal WTO action does not seem likely to be successful. China does not seem to resist IPR enforcement change but it certainly resists drastic changes. *See supra* notes 112, 120; *see also* Jackson, *supra* note 178, at 306-07 n.3, 309-11 (discussing the efficacy of retaliation as a solution to trade disputes).

184. *See* J. H. Reichman, Comment, *Enforcing the Enforcement Procedures of the TRIPS Agreement*, 37 VA. J. INT'L L. 335, 346-47 (1997) (“[G]overnments representing private right holders interests should not be allowed to raise the issue of inadequate enforcement without meeting a comparable criterion of ripeness, buttressed in appropriate cases by the need for the real party in interest to exhaust local remedies. Otherwise, proprietors might pressure governments into premature action at the WTO merely to avoid the uncertainties of dealing with the domestic judicial and administrative organs”). Based on considerations of ripeness, a complaint against China would not necessarily constitute a “wrong case,” that is, a dispute the resolution of which undermines the WTO system. *See* William J. Davey, *Dispute Settlement in GATT*, 11 *FORDHAM INT'L L.J.* 51, 67-78 (1987), *reprinted in* Jackson, *supra* note 178, at 249-51 (discussing “wrong cases”). As Davey argues, these cases remain unresolved for years but the system nevertheless survives. *See id.* at 250. The argument made here, however, examines issues of ripeness from an effectiveness perspective, that is, which would be the most effective way to bring the Chinese IPR system into compliance with the WTO rules. Arguably, what is most effective may equal what is better for the system.

185. *See* Davey, *supra* note 184, at 249.

186. *See supra* pp. 239-40.

high for developing countries to comply with TRIPS and may accentuate the debate over IPR enforcement in the developing world. Even though strong IPR protection may be a blessing for the right holders in the developed countries, it may entail a huge burden for developing countries. Notably, but for the TRIPS provision conferring on developing countries transition periods for compliance,¹⁸⁷ this could trigger similar complaints against developing countries as a way to expedite their compliance with TRIPS.

In addition, a strict interpretation of the TRIPS minimum standards may accentuate the debate, especially among the developing WTO members, about IPR protection in the WTO, and may lead to further negotiations regarding the appropriate IPR protection scheme in the multilateral trading system. Negotiations in this setting will be influenced by a decision against China's IPR enforcement system. That is because negotiations will happen after the fact, as the DSB Report would be already published, thus setting the stage of the negotiations, which in turn may limit the range of possible solutions regarding IPR protection in the multilateral trading system.

Moreover, the United States ought to consider the potential effect that a TRIPS case against China may have in the trade relationship between the two countries. Bringing a WTO complaint against China may complicate further cooperation between the parties on the issue of IPR enforcement. Currently, China and the United States, through bilateral schemes such as the JCCT, cooperate on trade issues including IPR protection.¹⁸⁸ Significant progress has been made in Chinese IPR through these efforts, as China has agreed to even further concessions.¹⁸⁹ Logically, when the issues move from the bilateral to the multilateral level due to a formal WTO dispute, the bilateral cooperation could be adversely affected at least on the area of IPR protection. Accordingly, a balancing of competing interests should take place when contemplating the ripeness of such action against China.

In response to concerns that a potential TRIPS case against China will upset the bilateral relationship, the United States has legitimate counterarguments. Such arguments, however, may be insufficient to avoid affecting the U.S.-China trade relation. The United States may argue that bringing such a case does not constitute a contentious act.¹⁹⁰

187. See TRIPS, *supra* note 1, art. 65.2.

188. See *supra* notes 167-69 and accompanying text.

189. *Id.*

190. DSU Article 3.10 (stating that "[i]t is understood that requests for conciliation and the use of the dispute settlement procedures should not be intended or considered as contentious

Five U.S.-initiated cases against China are currently pending at the WTO.¹⁹¹ In this context, it is arguably problematic for the United States to argue that its trade strategy is not specifically targeting China.

Of course, the United States may justify a TRIPS case against China on the grounds that “a dispute is one of the many tools that mature trade partners use to find solutions.”¹⁹² This is a legitimate argument, as the DSU is part of a normal trade relationship. WTO Members consented to the DSU mechanism as part of their accession to the WTO and have used it to address a plethora of disputes.

Considering the issues discussed—the likelihood of success of a TRIPS case against China; the resulting consequences for the parties, the TRIPS Agreement, and the WTO system; and China’s stature as a global trade power and as one of the United States’ biggest trading partners—one may express reservations as to the ripeness of the current case against Chinese IPR.¹⁹³

V. CONCLUSION

With China’s accession to the WTO, the multilateral trade system faces a great challenge. As a large player in the global economy, China’s integration into the WTO system will not be easy. The challenges for China’s trading partners in the area of IPR protection are particularly significant and costly and bringing a TRIPS action against China at this point may have significant consequences for the multilateral trade system as a whole. The United States and other developed WTO Members should continue to assist China in improving its IPR legal framework while pressuring it to enhance IPR enforcement. It must be recognized that while progress cannot be made overnight, all WTO Members must uphold their respective responsibilities in the WTO system.

acts and that, if a dispute arises, all Members will engage in these procedures in good faith in an effort to resolve the dispute. It is also understood that complaints and counter-complaints in regard to distinct matters should not be linked”).

191. See CRS Report, *supra* note 21, at 17; World Trade Organization, Dispute Settlement – Disputes by Country, available at http://www.wto.org/english/tratop_e/dispu_e/dispu_by_country_e.htm (last visited Sept. 26, 2007). The United States is the sole country bringing the case against China regarding the value-added tax on integrated circuits. *Id.* In the auto-parts dispute, the EU and Canada join the United States in challenging the Chinese measures. *Id.*

192. *China files WTO complaint over U.S. Import Duties on Chinese Paper*, INT’L HERALD TRIBUNE, Sept. 14, 2007 available at www.iht.com/articles/ap/2007/09/14/business/EU-FIN-ECO-WTO-China-US.php.

193. See U.S. Dept. of State, *supra* note 171.