

2011

## TRIPS Enforcement and Developing Countries

Peter K. Yu

Follow this and additional works at: <http://digitalcommons.wcl.american.edu/auilr>

 Part of the [Intellectual Property Commons](#), and the [International Trade Commons](#)

---

### Recommended Citation

Yu, Peter K. "TRIPS Enforcement and Developing Countries." *American University International Law Review* 26 no. 3 (2011): 727-782.

This Article is brought to you for free and open access by the Washington College of Law Journals & Law Reviews at Digital Commons @ American University Washington College of Law. It has been accepted for inclusion in *American University International Law Review* by an authorized administrator of Digital Commons @ American University Washington College of Law. For more information, please contact [fbrown@wcl.american.edu](mailto:fbrown@wcl.american.edu).

---

---

# TRIPS ENFORCEMENT AND DEVELOPING COUNTRIES

PETER K. YU\*

INTRODUCTION .....	727
I. CLAIMS .....	730
A. CRIMINAL THRESHOLDS .....	731
B. DISPOSAL OF INFRINGING GOODS .....	735
C. COPYRIGHT PROTECTION FOR CENSORED WORKS .....	739
II. GAINS .....	743
A. MINIMUM STANDARDS .....	744
B. PRIVATE RIGHTS .....	747
C. SUBSEQUENT PRACTICE .....	754
D. LOCAL CONDITIONS .....	757
E. SUBSTANTIVE EVIDENCE .....	760
F. HOPE AND ENCOURAGEMENT .....	763
III. DISAPPOINTMENTS .....	765
A. ARTICLES 7 AND 8 .....	765
B. ARTICLE 1.1 .....	772
C. ARTICLE 41.5 .....	778
CONCLUSION .....	781

## INTRODUCTION

In January 2009, the Dispute Settlement Body (“DSB”) of the World Trade Organization (“WTO”) released a panel report on *China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights*.<sup>1</sup> The dispute concerned the inadequacy

---

\* Copyright © 2011 Peter K. Yu. Kern Family Chair in Intellectual Property Law and Director, Intellectual Property Law Center, Drake University Law School; Wenlan Scholar Chair Professor, Zhongnan University of Economics and Law; Visiting Professor, Centre for International Intellectual Property Studies, University of Strasbourg. The Author is grateful to Lindsey Purdy and Megan Snyder for excellent research and editorial assistance.

1. Panel Report, *China—Measures Affecting the Protection and Enforcement*

of protection and enforcement of intellectual property rights (“IPRs”) in China under the Agreement on Trade-Related Aspects of Intellectual Property Rights<sup>2</sup> (“TRIPS Agreement”). While both China and the United States quickly declared victory in this dispute, the dispute’s outcome was more correctly viewed as a tie between the two parties.<sup>3</sup>

Pursuant to the panel report, China amended Article 4 of its Copyright Law<sup>4</sup> and Article 27 of its Regulations on Customs Protection of Intellectual Property Rights<sup>5</sup> (“Customs Regulations”) in spring 2010. By faithfully implementing the panel’s recommendations, and by continuing its role as a responsible WTO citizen, China effectively ended its TRIPS enforcement dispute with the United States.

---

*of Intellectual Property Rights*, WT/DS362/R (Jan. 26, 2009) [hereinafter TRIPS Enforcement Panel Report].

2. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 108 Stat. 4809, 1869 U.N.T.S. 299 [hereinafter TRIPS Agreement].

3. This view was strongly supported by the fact that neither side appealed the panel report to the Appellate Body. See Peter K. Yu, *The TRIPS Enforcement Dispute*, 89 NEB. L. REV. (forthcoming 2011), available at <http://ssrn.com/abstract=1676558>.

4. Copyright Law of the People’s Republic of China (中华人民共和国著作权法) (promulgated by the Standing Comm. Nat’l People’s Cong., Sept. 7, 1990, amended Feb. 26, 2010, effective Apr. 1, 2010), art. 4 [hereinafter Chinese Copyright Law], available at <http://www.wipo.int/wipolex/en/details.jsp?id=6062>. Pursuant to this amendment, the first sentence of Article 4, which the WTO panel found to be inconsistent with the TRIPS Agreement, was removed. The second sentence, which stated that “[c]opyright owners, in exercising their copyright, shall not violate the Constitution or laws or prejudice the public interests,” remained intact and became the first sentence. This sentence is then followed by a newly added sentence, which stipulates: “The publication and dissemination of works shall be subject to the administration and supervision of the state.” See generally Yu, *supra* note 3 (discussing the 2010 amendment to Article 4 of Chinese Copyright Law).

5. Decision of the State Council on Amendment of the Regulations of the People’s Republic of China on Customs Protection of Intellectual Property Rights (promulgated by the St. Council, Mar. 24, 2010, effective Apr. 1, 2010), translated at <http://english.mofcom.gov.cn/aarticle/counselorsreport/asiareport/201005/20100506903349.html> (amending Article 24 of the Customs Regulations to stipulate that “the customs may lawfully auction them after the infringement features have been eliminated, but for imported goods with counterfeited trademarks, except for special circumstances, such goods shall not be permitted to be traded only by clearing off the trademarks” (emphasis added)).

The dispute is important from the standpoint of WTO jurisprudence. It represents the first time a WTO panel focused primarily on the interpretation and implementation of the TRIPS enforcement provisions.<sup>6</sup> In addition to examining in great detail and depth the obligations under Articles 41, 46, 59, and 61 of the TRIPS Agreement,<sup>7</sup> the panel also briefly explored the implications of Articles 1.1 and 41.5—key safeguards against demands for overzealous enforcement of intellectual property rights.<sup>8</sup> As developed countries—notably, the United States, the European Union, Japan, and Switzerland—continue to demand stronger international intellectual property enforcement norms through the highly controversial Anti-Counterfeiting Trade Agreement<sup>9</sup> (“ACTA”) and other bilateral, plurilateral, and regional trade agreements, this panel report is likely to have special significance.

To be certain, this panel report involves a bilateral dispute between China and the United States and therefore has limited value to third parties in the less developed world, which include both developing and least developed countries. Nevertheless, because the dispute involves the two largest economies in the world, it will have serious ramifications for intellectual property developments in other WTO members. Indeed, the issues addressed in the dispute were so important that twelve third parties participated in the panel proceedings. Out of them, half were developing countries: Argentina, Brazil, India, Mexico, Thailand, and Turkey.<sup>10</sup> Except for India and

---

6. This panel report, however, is not the first one involving a TRIPS provision concerning the enforcement of intellectual property rights. In *United States—Section 211 Omnibus Appropriations Act of 1998*, the WTO panel and subsequently the Appellate Body examined Section 211 of the U.S. Omnibus Appropriations Act of 1998 in relation to Article 42 of the TRIPS Agreement. See Panel Report, *United States—Section 211 Omnibus Appropriations Act of 1998*, WT/DS176/R (Aug. 6, 2001) [hereinafter Section 211 Panel Report]; Appellate Body Report, *United States—Section 211 Omnibus Appropriations Act of 1998*, WT/DS176/AB/R (Jan. 2, 2002).

7. TRIPS Agreement arts. 41, 46, 59, 61.

8. *Id.* arts. 1.1, 41.5.

9. See Draft Anti-Counterfeiting Trade Agreement, Dec. 3, 2010, available at [http://www.ustr.gov/webfm\\_send/2417](http://www.ustr.gov/webfm_send/2417). See generally Peter K. Yu, *Six Secret (and Now Open) Fears of ACTA*, 64 SMU L. REV. (forthcoming 2011), available at <http://ssrn.com/abstract=1624813>.

10. TRIPS Enforcement Panel Report, *supra* note 1, ¶ 1.6. The other third parties were Australia, Canada, the European Communities, Japan, South Korea, and Taiwan.

Turkey, all of these countries either provided a written submission to or made an oral statement before the WTO panel.<sup>11</sup>

This article focuses on the implications of this panel report for less developed countries. Part I recapitulates the key arguments made by China and the United States as well as the major findings in the report. Parts II and III then evaluate the report from the standpoint of less developed countries. Part II, in particular, explores six areas in which the panel report has enabled less developed countries to score some important points in the interpretation of the TRIPS Agreement. Part III concludes by examining three areas in which the report has provided some disappointments.

## I. CLAIMS

In April 2007, the United States requested consultations with China concerning the latter's failure to protect and enforce intellectual property rights pursuant to the TRIPS Agreement.<sup>12</sup> The complaint focused on four particular issues: (1) the high thresholds for Chinese criminal procedures and penalties in the intellectual property area; (2) the failure of the Chinese customs authorities to properly dispose of infringing goods seized at the border; (3) the denial of copyright protection to works that have not been authorized for publication or dissemination within China; and (4) the unavailability of criminal procedures and penalties in China for infringing activities that involved either reproduction or distribution, but not both.

Since the filing of the WTO complaint, consultations between the two parties resolved the last claim. As a result, the United States requested the DSB to establish a panel to examine only the three remaining claims.<sup>13</sup> Serving as the panel chair was Adrian Macey, a New Zealand diplomat who was involved in the General Agreement on Tariffs and Trade ("GATT")/WTO negotiations during the

---

11. *See id.* Annex C.

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

13. Request for the Establishment of a Panel by the United States, *China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, WT/DS362/7 (Aug. 21, 2007) [hereinafter TRIPS Enforcement Panel Request].

Uruguay Round. The other two panelists were Marino Porzio, a Chilean lawyer who served as WIPO Deputy Director General during 1980–1987, and the late Sivakant Tiwari, a Singaporean government attorney who chaired the APEC Intellectual Property Rights Experts' Group.<sup>14</sup>

After some initial delay, the long-awaited report was finally released in January 2009. As I have provided elsewhere a full analysis of this report,<sup>15</sup> this Part only briefly summarizes the key claims made by China and the United States as well as the panel's major findings. To parallel the claims laid out in the original complaint, this Part discusses the claims in the same order, even though the panel report examined them in the reverse order.

#### A. CRIMINAL THRESHOLDS

The first claim concerned the thresholds for criminal procedures and penalties. Article 61 of the TRIPS Agreement states that “[m]embers shall provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale.”<sup>16</sup> Because each WTO member is required to apply criminal procedures and penalties to *all* cases involving “wilful trademark counterfeiting or copyright piracy on a commercial scale,” the United States claimed that China had failed to honor its TRIPS commitments by including in its laws high thresholds for applying criminal procedures and penalties to intellectual property infringement.<sup>17</sup> In the United States' view, the thresholds provided a safe harbor to shelter pirates and counterfeiters from criminal prosecution.<sup>18</sup> China therefore failed to provide criminal enforcement and remedies as required by Articles 61 and 41.4 of the TRIPS Agreement, respectively.<sup>19</sup>

In response to the U.S. claims, China pointed out that the country had in place a unique alternative administrative enforcement system that “does not have a parallel in most Western systems, including the

---

14. TRIPS Enforcement Panel Report, *supra* note 1, ¶ 1.5.

15. See generally Yu, *supra* note 3 (providing a comprehensive analysis of the WTO panel report).

16. TRIPS Agreement art. 61.

17. *Id.*; see TRIPS Enforcement Complaint, *supra* note 12.

18. See TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.494.

19. See TRIPS Enforcement Panel Request, *supra* note 13, at 3.

US legal system.”<sup>20</sup> Due to limited resources and a vastly different socio-legal tradition, public security authorities in China handle serious cases (cases above the thresholds), while administrative copyright and commerce authorities tackle low-scale infringements (cases below the thresholds).<sup>21</sup> Thus, instead of providing a safe harbor for intellectual property criminals, Chinese law subjects to enforcement “infringement on *any scale*.”<sup>22</sup>

China further explained to the panel the complexity of its criminal law and the way the United States had misstated the calculation of its thresholds. As China noted, although the United States repeatedly emphasized how counterfeiters in China could avoid criminal punishment by limiting their inventory to 499 copies (in response to the 500-copy threshold),<sup>23</sup> the thresholds do not operate in such a simple and rigid fashion. According to China, courts “may take into account multiple acts of infringement, and not simply the income, profits, sales or number of copies in a single transaction or at a single point in time.”<sup>24</sup> They may also calculate the thresholds over a prolonged period of time—say, up to five years.<sup>25</sup> In addition, courts take into account “evidence of collaboration between infringers,” using concepts such as joint liability, criminal groups, and accomplices as laid out in the Criminal Law.<sup>26</sup> They also “consider

---

20. TRIPS Enforcement Panel Report, *supra* note 1, Annex B-1, ¶ 9.

21. *See id.* ¶ 7.476.

22. *Id.* (emphasis added).

23. *See, e.g., id.* Annex A-1, ¶ 37 (“[I]f a copyright pirate makes 499 reproductions or a retailer stocks 499 copies in a store, they could not be prosecuted or convicted under Article 217 of the Criminal Law based on the copy threshold, because the relevant threshold of 500 copies provided by the April 2007 [Judicial Interpretation] would not be met.”); *id.* Annex A-2, ¶ 11 (“[T]he Article 217 500-copy threshold excludes acts of commercial scale piracy, as a copyright pirate that makes 499 reproductions or a retailer that stocks 499 copies in a store could not be prosecuted or convicted on that basis under Article 217.”); *id.* Annex A-4, ¶ 30 (“499 *unfinished* copies of a video game not yet bearing an infringing trademark still qualify as evidence of a ‘commercial scale’ operation, just as much as 499 *finished* video games bearing such a trademark.”); *id.* Annex A-6, ¶ 12 (“The reality is that in China, a producer can make 499 copies, or a retailer can sell 499 copies, and escape prosecution thanks to the safe harbor created by the thresholds for Article 217.”).

24. *Id.* ¶ 7.461.

25. *See id.* ¶¶ 7.457, 7.461.

26. *Id.* ¶ 7.439; *see also* Criminal Law of the People’s Republic of China (中华人民共和国刑法) (promulgated by the Standing Comm. Nat’l People’s Cong., July 1, 1979, amended Mar. 14, 1997, effective Oct. 1, 1997), arts. 25–27,

semi-finished or unfinished products . . . [as] evidence of preparation and attempt.”<sup>27</sup>

In its report, the panel noted that Article 61 is subject to four limitations: (1) trademarks and copyrights (as opposed to all forms of intellectual property rights covered by the TRIPS Agreement); (2) counterfeiting and piracy (as opposed to mere infringement); (3) willful acts; and (4) infringements “on a commercial scale.”<sup>28</sup> The key to deciding the first claim concerned the last limitation. Although the term “commercial scale” was “intentionally vague . . . and left undefined” in the TRIPS Agreement,<sup>29</sup> the panel noted that the term was adopted out of “a deliberate choice” and therefore “must be given due interpretative weight.”<sup>30</sup>

Using the DSB’s customary dictionary approach,<sup>31</sup> the panel found that the term includes both qualitative and quantitative elements.<sup>32</sup> As the panel reasoned: “counterfeiting or piracy ‘on a commercial scale’ refers to counterfeiting or piracy carried on at the magnitude or extent of typical or usual commercial activity with respect to a given product in a given market.”<sup>33</sup> The term therefore provides “a relative standard, which will vary when applied to different fact situations.”<sup>34</sup> To assess the consistency of China’s criminal thresholds with this complex definition, the panel looked to specific conditions in China’s marketplace.<sup>35</sup>

---

*translated at* <http://www.china.org.cn/english/government/207319.htm> (providing for joint criminal liability and liability for criminal groups and accomplices).

27. TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.483.

28. *See id.* ¶¶ 7.518–7.528.

29. *Id.* Annex B–1, ¶ 22.

30. *Id.* ¶ 7.543.

31. *See, e.g.*, CHRISTOPHER ARUP, THE WORLD TRADE ORGANIZATION KNOWLEDGE AGREEMENTS 95 (2d ed. 2008) (noting the “front-line use of standard dictionaries”); JAYASHREE WATAL, INTELLECTUAL PROPERTY RIGHTS IN THE WTO AND DEVELOPING COUNTRIES 77 (2001) (“[A]ll the seven TRIPS dispute settlement reports published so far have relied largely on the dictionary meaning.”); Daniel Gervais, *China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, 103 AM. J. INT’L L. 549, 552 (2009) (noting “the ‘dictionary approach’ now common in WTO panel reports”).

32. *See* TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.538.

33. *Id.* ¶ 7.577.

34. *Id.* ¶ 7.600.

35. *See id.* ¶ 7.604 (“The parties agree that the standard of ‘a commercial scale’ will vary by product and market and that the conformity of China’s criminal thresholds with that standard must be assessed by reference to China’s



Although the United States provided evidence in the form of press articles and industry and consultant reports,<sup>36</sup> the panel found the evidence insufficient to “demonstrate what constituted ‘a commercial scale’ in the specific situation of China’s marketplace.”<sup>37</sup> As the panel declared, it did not “ascribe any weight to the evidence in the press articles . . . . [E]ven if it did, the information that these press articles contain is inadequate to demonstrate what is typical or usual in China for the purposes of the relevant treaty obligation.”<sup>38</sup>

In sum, without determining whether China has satisfied its TRIPS obligations, the WTO panel found that the United States had failed to substantiate its claim. China therefore prevailed on what many commentators and rights holders have considered the most important claim in the dispute.<sup>39</sup>

---

marketplace.”).

36. *See id.* ¶¶ 7.615–7.616. As the panel stated:

In its rebuttal of China’s assertion regarding the scale of commerce in China, the United States noted that the “commercial scale” standard was a relative one. It commented on the Economic Census statistics submitted by China but at the same time dismissed their relevance as they are aggregate statistics related to undefined average economic units. It also recalled an earlier assertion that the Chinese market, including the market for many copyright and trademark-bearing goods, is fragmented and characterized by a profusion of small manufacturers, middlemen, distributors, and small outlets at the retail level.

The Panel has reviewed the evidence in support of this assertion. The evidence comprises a quote from a short article from a US newspaper, the San Francisco Chronicle, titled “30,000–Store Wholesale Mall Keeps China Competitive” regarding the number of stores in a particular mall in Yiwu and the physical dimensions of some stalls; a statistic quoted from an extract from a management consultant report titled “The 2005 Global Retail Development Index” that the top ten retailers in China hold less than 2 per cent of the market, and another statistic that the top 100 retailers have less than 6.4 per cent; and a quote from an article in Time magazine titled “In China, There’s Priceless, and for Everything Else, There’s Cash” that a shopping mall in Luohu spans six floors of small stores.

*Id.* (footnotes omitted).

37. *Id.* ¶ 7.614.

38. *Id.* ¶ 7.629.

39. *See, e.g.,* Donald P. Harris, *The Honeymoon Is Over: The U.S.–China WTO Intellectual Property Complaint*, 32 *FORDHAM INT’L L.J.* 96, 118–19 (2008) (contending that the criminal thresholds claim is “the most significant claim in the United States’ complaint”); Joost Pauwelyn, *The Dog that Barked but Didn’t Bite: 15 Years of Intellectual Property Disputes at the WTO*, 1 *J. INT’L DISP. SETTLEMENT* 389, 414 (2010) (pointing out that the criminal threshold claim “was no doubt its most important claim in this dispute”).

## B. DISPOSAL OF INFRINGING GOODS

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

Without prejudice to other rights of action open to the right holder and subject to the right of the defendant to seek review by a judicial authority, competent authorities shall have the authority to order the destruction or disposal of infringing goods in accordance with the principles set out in Article 46.<sup>40</sup>

Article 46 states further:

In order to create an effective deterrent to infringement, the judicial authorities shall have the authority to order that goods that they have found to be infringing be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, or, unless this would be contrary to existing constitutional requirements, destroyed.<sup>41</sup>

Taken together, these two provisions require a WTO member to empower its judicial authorities to order the uncompensated destruction or disposal of infringing goods seized at the border. Because these provisions only lay out an empowerment obligation, as compared to mandating a specific action, the WTO members are not required to “exercise [the stipulated] authority in a particular way, unless otherwise specified.”<sup>42</sup> Instead, the authorities retain a high degree of discretion to determine their preferred actions.

In light of this limited obligation, the United States could not argue that the Chinese customs authorities had failed to destroy infringing goods seized at the border—the action the U.S. administration and its supportive rights holders preferred. Instead, the United States advanced a much weaker, and rather academic, argument that China introduced a “compulsory scheme” that took away the authorities’ “scope of authority to order the destruction or

---

40. TRIPS Agreement art. 59.

41. *Id.* art. 46.

42. TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.238. As the panel recounted, “[p]revious drafts of the TRIPS Agreement had provided that the authorities shall ‘provide for’ certain remedies, but this phrasing was changed to read shall ‘have the authority’, as were a number of other draft provisions.” *Id.*

disposal of infringing goods.”<sup>43</sup>

In particular, the United States argued that Article 27 of the Chinese Customs Regulations,<sup>44</sup> in conjunction with the relevant implementing measures and a public notice from the customs authorities, created a “compulsory scheme” that has taken away the ability of the customs authorities to exercise their discretion.<sup>45</sup> This scheme precluded the authorities from destroying the infringing goods unless they found it inappropriate to donate the goods to charities, sell them back to rights holders, or auction them off after eradicating the infringing features.

In response to the U.S. claims, China pointed out that the sequence merely expressed “an official preference” for disposition methods.<sup>46</sup> Under this flexible arrangement, China claimed, its customs authorities still had wide discretion to determine whether the stated criteria had been met. In fact, as the panel observed, there were “circumstances in which Customs departs from the terms of the measures.”<sup>47</sup> The panel therefore found “the measures . . . not ‘as mandatory’ as they appear on their face.”<sup>48</sup>

To the surprise of the United States and many intellectual property rights holders, the WTO panel began by praising China for providing “a level of protection *higher* than the minimum standard required” by

---

43. *Id.* ¶ 7.197.

44. Article 27 of the Regulations on Customs Protection of Intellectual Property Rights provided:

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

Regulations of the People’s Republic of China on Customs Protection of Intellectual Property Rights (promulgated by the State Council, Dec. 2, 2003, effective Mar. 1, 2004), *available at* [http://www.wipo.int/wipolex/en/text.jsp?file\\_id=199159](http://www.wipo.int/wipolex/en/text.jsp?file_id=199159).

45. TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.197.

46. *Id.* ¶ 7.329.

47. *Id.* ¶ 7.348.

48. *Id.*

the TRIPS Agreement.<sup>49</sup> For example, China has extended border measures to not only piracy and counterfeiting, but also other forms of copyright, patent, and trademark infringements.<sup>50</sup> Thanks to U.S. pressure in the early-to-mid-1990s<sup>51</sup> and with strong influence from the European Union,<sup>52</sup> these border measures have been further extended to both imported and exported goods even though Article 59 covers only imported goods.<sup>53</sup>

With respect to donations and sales to rights holders, the WTO panel noted that Article 59 “do[es] not indicate that the authority to order the specified types of remedies must be exclusive.”<sup>54</sup> While donations may help meet public welfare needs and are suitable to conditions in less developed countries,<sup>55</sup> sales to rights holders can be justified by the fact that some rights holders may want to purchase unauthorized overruns that are qualitatively identical to the authorized manufactures.<sup>56</sup> The panel even accepted the use of

---

49. *Id.* ¶ 7.228.

50. *See id.* ¶ 7.226 (“It is apparent that the intellectual property right infringements covered by the Customs measures include not only counterfeit trademark goods and pirated copyright goods, but certain other infringements of intellectual property rights, namely other trademark-infringing goods, other copyright-infringing goods, and patent-infringing goods.”).

51. *See* Agreement Regarding Intellectual Property Rights, Annex, § 1[G], U.S.-China, Feb. 26, 1995, 34 I.L.M. 881, 900–03 (1995) (requiring all customs offices to intensify border protection for all imports *and exports* of CDs, LDs, CD-ROMS, and trademarked goods).

52. *See* Xue Hong, *An Anatomical Study of the United States Versus China at the World Trade Organisation on Intellectual Property Enforcement*, 31 EUR. INTEL. PROP. REV. 292, 298 (2009) (noting that “Chinese Regulations on Customs Protection of Intellectual Property Rights follows Regulation 1383/2003 on customs actions against goods suspected of infringing intellectual property rights”).

53. *See* TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.227.

54. *Id.* ¶ 7.240.

55. *See id.* ¶ 7.306 (“In one case, Customs donated infringing goods to the Red Cross that were allocated to people in areas struck by natural disasters such as typhoons, rainstorms and floods. The goods all infringed trademark rights and consisted of sport shoes, bags of rice noodles, washing powder, air-cooled chillers and kerosene heaters.”).

56. *See id.* Annex B–1, ¶ 38 (“Right-holders may choose to purchase infringing goods where, for example, these seized goods are determined to be overruns illicitly produced by a licensed manufacturer, and are therefore identical to the licensed goods.”). *But see id.* Annex A–1, ¶ 52 (“[A]nyone who has to pay for goods that violates his or her own patent, trademark or copyright is harmed in the amount of the payment.”).

auctions to dispose of infringing goods. As it explained, because “the remedies specified in Article 59 are not exhaustive . . . , the fact that authority to order auction of infringing goods is not required is not in itself inconsistent with Article 59.”<sup>57</sup>

Nevertheless, the panel faulted China for the way its customs authorities auctioned off the seized goods. As clearly stated in Article 46 of the TRIPS Agreement, the provision that provides the principles incorporated into Article 59, “[i]n regard to counterfeit trademark goods, the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce.”<sup>58</sup> Whether the removal is considered “simple” will depend on whether “the state of the goods is altered sufficiently to deter further infringement.”<sup>59</sup> The panel did not indicate what exactly needs to be done to avoid a violation of Article 59. It merely hinted that an exceptional case may arise when “an innocent importer . . . has been deceived into buying a shipment of counterfeit goods, . . . has no means of recourse against the exporter and . . . has no means of reaffixing counterfeit trademarks to the goods.”<sup>60</sup> It also suggested that “[p]ractical requirements, such as removal of the trademark, affixation of a charitable endorsement or controls over the use of goods or distribution methods, may avoid confusion.”<sup>61</sup>

Although China provided additional measures, such as the solicitation of comments from rights holders<sup>62</sup> and the introduction of an expertly-determined reserve price,<sup>63</sup> those measures, in the panel’s

---

57. *Id.* ¶ 7.327.

58. TRIPS Agreement art. 46.

59. TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.375.

60. *Id.* ¶ 7.391.

61. *Id.* ¶ 7.284.

62. *See id.* Annex B-1, ¶ 47 (“[R]ight-holders have a legal, formal right to comment prior to any public auction; this procedure helps Customs to determine that a good would be inappropriate for public auction, and thereby helps avoid harm to the right-holders.”); *id.* Annex B-1, ¶ 53 (“Formal comment . . . allows right-holders to identify specific concerns—such as any safety threats that the goods pose, or the presence of proprietary design features that cannot be removed—and allows Customs to determine that an auction would not be appropriate.”). *But see id.* Annex A-2, ¶ 23 (noting that the right to comment “is not a right to *prevent* the goods from being auctioned”).

63. *See id.* ¶ 7.202 (noting that China Customs “uses a reserve price at auction to ensure that infringers do not have the opportunity to purchase the seized goods

view, did not “create an effective deterrent to infringement”—a key objective of Article 46.<sup>64</sup> In the end, China lost part of the second claim, even though the panel upheld as TRIPS-consistent the use of donations, sales to rights holders, and auctions. The panel also rejected the U.S. claim that customs actions in China were subject to “a compulsory sequence of steps” in violation of the TRIPS Agreement.

### C. COPYRIGHT PROTECTION FOR CENSORED WORKS

The final claim in the dispute concerned the first sentence of Article 4 of the Chinese Copyright Law, which states that “[w]orks the publication and/or dissemination of which are prohibited by law shall not be protected by this Law.”<sup>65</sup> Under the statute, works can be banned by “Criminal Law, the Regulations on the Administration of Publishing Industry, the Regulations on the Administration of Broadcasting, the Regulations on the Administration of Audiovisual Products, the Regulations on the Administration of Films, and the Regulations on the Administration of Telecommunication.”<sup>66</sup> Based on China’s denial of protection to banned works, the United States claimed that China had failed to offer protection to copyright holders as required by the Berne Convention for the Protection of Literary and Artistic Works (“Berne Convention”), which was incorporated by reference into the TRIPS Agreement.<sup>67</sup>

Article 5(1) of the Berne Convention states:

Authors shall enjoy, in respect of works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted by this

---

at an unreasonably low cost and reaffix counterfeit marks”).

64. *Id.* ¶ 7.373.

65. *Id.* ¶ 7.1; Chinese Copyright Law, art. 4. In lieu of “and/or,” the conjunctive “or” was used in the official English translation of the Chinese Copyright Law. In the WTO panel report, however, the phrase “and/or” was used in Mutually Agreed Translation No. 11. TRIPS Enforcement Panel Report, *supra* note 1, ¶ 2.6.

66. TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.73.

67. TRIPS Agreement art. 9.1; TRIPS Enforcement Panel Request, *supra* note 13, at 5.

Convention.<sup>68</sup>

Article 5(2) further provides: “The enjoyment and the exercise of these rights shall not be subject to any formality; such enjoyment and such exercise shall be independent of the existence of protection in the country of origin of the work.”<sup>69</sup> By denying copyright holders the immediate and automatic enjoyment of their rights, and by subjecting copyright to the formalities of a successful conclusion of content review, the Chinese Copyright Law, in the United States’ view, therefore contravened the Berne Convention.

In addition, the United States raised arguments based on Article 41.1 of the TRIPS Agreement, which states: “Members shall ensure that enforcement procedures . . . are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements.”<sup>70</sup> According to the United States, the Chinese law did not provide any effective action against infringement of those copyrighted works that had not passed the content review process or that were awaiting the results of the review.<sup>71</sup>

In response to the U.S. claims, China made a number of counterarguments. First, China claimed that the first sentence of Article 4 of the Copyright Law was “extremely limited in scope.”<sup>72</sup> Like other countries, China bans from publication or dissemination works that consist entirely of unconstitutional or immoral content.<sup>73</sup> Second, China made a bizarre argument concerning the distinction between “copyright” and “copyright protection.” As China contended, Article 4 did not remove copyright, but denied the

---

68. Berne Convention for the Protection of Literary and Artistic Works art. 5(1), Sept. 9, 1886, 25 U.S.T. 1341, 1161 U.N.T.S. 30 (as revised at Paris, July 24, 1971) [hereinafter Berne Convention].

69. *Id.* art. 5(2).

70. TRIPS Agreement art. 41.1; TRIPS Enforcement Panel Request, *supra* note 13, at 6.

71. *See* TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.84.

72. *See id.* ¶ 7.17.

73. Such a ban also included “reactionary, pornographic, or superstitious contents.” *Id.* ¶ 7.54.

“particularized rights of private copyright enforcement.”<sup>74</sup> Authors therefore would still have “access” to the enforcement process even if they did not have adequate evidence or a valid right to enforce.<sup>75</sup> Third, China insisted that Article 17 of the Berne Convention recognizes a country’s sovereign right “to permit, to control, or to prohibit . . . the circulation, presentation, or exhibition of any work or production.”<sup>76</sup> As China observed, the provision places limitations on all rights granted to authors under the Berne Convention and “effectively denies WTO jurisdiction in this area.”<sup>77</sup>

Finally, China pointed out that public regulations *a priori* preempt private economic rights. China argued that because the copyright in banned works was considered a “legal and material nullity,” enforcement of such a right would be meaningless.<sup>78</sup> China further stated that it “enforces prohibitions on content seriously, and . . . this removes banned content from the public domain more securely than would be possible through copyright enforcement.”<sup>79</sup> As the ban applies to both copyright holders and potential infringers, China claims private enforcement is unnecessary.<sup>80</sup> In China’s view, content regulatory measures have already provided “an alternative form of enforcement against infringement,”<sup>81</sup> and therefore meet the “effective action” obligation under Article 41.1 of the TRIPS Agreement.<sup>82</sup>

---

74. *Id.* ¶ 7.21.

75. *See id.* ¶ 7.178 (“China asserts that the enforcement procedures in Chapter V of the Copyright Law are ‘available’ in the sense that the authors of all works have ‘access’ to enforcement process irrespective of whether they have adequate evidence or a valid right to enforce.”).

76. Berne Convention, *supra* note 68, art. 17.

77. TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.120.

78. *Id.* ¶ 7.134; *see also id.* Annex B–4, ¶ 103 (“When governments exercise their sovereign power to censor, the exercise of private rights is moot: unauthorized copying is not permitted. Copyright continues, but enforcement is not needed: the content is banned.”).

79. *Id.* ¶ 7.137.

80. *Id.*

81. *Id.* ¶ 7.180.

82. *See* TRIPS Agreement art. 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.”).



Despite this long list of defenses and counterclaims, the WTO panel found Article 4 of the Chinese Copyright Law to be inconsistent with the TRIPS Agreement. In particular, the panel rejected China's distinction between copyright and copyright protection, pointing out that such a distinction would render copyright "no more than a phantom right."<sup>83</sup> The panel also noted that the enforcement procedures under Article 41.1 are "far more extensive" than mere access to the enforcement process.<sup>84</sup> In addition, the panel noted that, even though China had made a policy choice to make available other enforcement procedures, such as content regulatory measures, that particular choice "d[id] not diminish the member's obligation under Article 41.1 of the TRIPS Agreement."<sup>85</sup>

While the panel recognized a country's sovereign right to censor, it pointed out that "copyright and government censorship address different rights and interests."<sup>86</sup> In the panel's view, censorship regulations cannot eliminate rights that are inherent in a copyrighted work.<sup>87</sup> Nor did China satisfactorily "explain why censorship interferes with copyright owners' rights to prevent third parties from exploiting prohibited works."<sup>88</sup> Although the panel confirmed that its conclusion would not apply to works never submitted for or awaiting the results of content review in China, as well as the unedited version of works for which an edited version has been approved for distribution,<sup>89</sup> it recognized the "uncertainty" created by the potential

---

83. TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.66 ("It is difficult to conceive that copyright would continue to exist, undisturbed, after the competent authorities had denied copyright protection to a work on the basis of the nature of the work and the prohibition in the Copyright Law itself.").

84. *Id.* ¶ 7.179.

85. *Id.* ¶ 7.180.

86. *Id.* ¶ 7.135.

87. As the panel stated:

A government's right to permit, to control, or to prohibit the circulation, presentation, or exhibition of a work may interfere with the exercise of certain rights with respect to a protected work by the copyright owner or a third party authorized by the copyright owner. However, there is no reason to suppose that censorship will eliminate those rights entirely with respect to a particular work.

*Id.* ¶ 7.132.

88. *Id.* ¶ 7.133.

89. *See id.* ¶ 7.103 (basing its conclusion on the fact that that "the United States has not made a *prima facie* case with respect to works never submitted for content review in China, works awaiting the results of content review in China and the

denial in the absence of a determination by the censorship authorities.<sup>90</sup> The United States therefore won the third claim decisively.

## II. GAINS

As a technical matter, WTO panel reports cover only the disputing parties and have no clear precedential value.<sup>91</sup> Nevertheless, WTO panels often refer to reports adopted by the Appellate Body or other WTO panels. WTO panel reports can also influence the ongoing and future development of international intellectual property treaties, which are often negotiated or implemented in the shadow of these reports.<sup>92</sup> In addition, the reports may provide the rhetoric and political momentum needed for the various review processes in the TRIPS Council, other WTO bodies, and other international organizations. This Part explores six areas in which the panel report in *China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights* has enabled less developed countries to score some important points in the interpretation of the TRIPS Agreement.

---

unedited versions of works for which an edited version has been approved for distribution in China”).

90. *Id.* ¶ 7.118 (footnote omitted).

91. For a trilogy of articles discussing the unsettled nature of this issue, see generally Raj Bhala, *The Myth About Stare Decisis and International Trade Law (Part One of a Trilogy)*, 14 AM. U. INT’L L. REV. 845 (1999); Raj Bhala, *The Precedent Setters: De Facto Stare Decisis in WTO Adjudication (Part Two of a Trilogy)*, 9 J. TRANSNAT’L L. & POL’Y 1 (1999); Raj Bhala, *The Power of the Past: Towards de Jure Stare Decisis in WTO Adjudication (Part Three of a Trilogy)*, 33 GEO. WASH. INT’L L. REV. 873 (2001).

92. See J.H. Reichman & David Lange, *Bargaining Around the TRIPS Agreement: The Case for Ongoing Public–Private Initiatives to Facilitate Worldwide Intellectual Property Transactions*, 9 DUKE J. COMP. & INT’L L. 11, 61 (1998) (discussing how less developed countries can treat the TRIPS Agreement “as a set of default rules to be bargained around”); Gregory Shaffer, *Recognizing Public Goods in WTO Dispute Settlement: Who Participates? Who Decides? The Case of TRIPS and Pharmaceutical Patent Protection*, 7 J. INT’L ECON. L. 459, 476–77 (2004) (noting that countries can negotiate “in the shadow of” the WTO dispute settlement process).

## A. MINIMUM STANDARDS

By design, the TRIPS Agreement was established as a minimum standards agreement.<sup>93</sup> Article 1.1 states that “[m]embers may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement.”<sup>94</sup> In its report, the WTO panel acknowledged this treaty design. By mentioning the term “minimum standard” or its plural form fourteen times, the panel underscored its importance to understanding the TRIPS Agreement.

In so doing, the panel report recognizes the flexibilities retained in the TRIPS Agreement and explicitly affirmed in paragraph 5 of the Doha Declaration on the TRIPS Agreement and Public Health.<sup>95</sup> The report also underscores the autonomy and policy space reserved for less developed countries during the TRIPS negotiations. Such emphases are important in light of the increasing push by developed countries for TRIPS-plus protection through the negotiation of the highly controversial ACTA and other bilateral, plurilateral, and regional trade agreements.<sup>96</sup>

---

93. See generally J.H. Reichman, *Universal Minimum Standards of Intellectual Property Protection Under the TRIPS Component of the WTO Agreement*, 29 INT'L LAW. 345 (1995) (discussing how the TRIPS Agreement established universal minimum standards in the intellectual property area).

94. TRIPS Agreement art. 1.1.

95. World Trade Organization, Declaration on the TRIPS Agreement and Public Health of 14 November 2001, ¶ 5, WT/MIN(01)/DEC/2, 41 I.L.M. 746 (2002) [hereinafter Doha Declaration]. Paragraph 5 of the Doha Declaration specifically recognizes the following flexibilities:

a. In applying the customary rules of interpretation of public international law, each provision of the TRIPS Agreement shall be read in the light of the object and purpose of the Agreement as expressed, in particular, in its objectives and principles.

b. Each member has the right to grant compulsory licences and the freedom to determine the grounds upon which such licences are granted.

c. Each member has the right to determine what constitutes a national emergency or other circumstances of extreme urgency, it being understood that public health crises, including those relating to HIV/AIDS, tuberculosis, malaria and other epidemics, can represent a national emergency or other circumstances of extreme urgency.

d. The effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each member free to establish its own regime for such exhaustion without challenge, subject to the MFN and national treatment provisions of Articles 3 and 4.

*Id.*

96. See, e.g., Peter K. Yu, *Currents and Crosscurrents in the International Intellectual Property Regime*, 38 LOY. L.A. L. REV. 323, 392–400 (2004) (discussing the growing use of bilateral and regional trade agreements to create

More importantly, reserving autonomy for member states is a longstanding tradition in the international intellectual property arena. Article 19 of the Paris Convention for the Protection of Industrial Property, for example, states that countries “reserve the right to make separately between themselves special agreements for the protection of industrial property, in so far as these agreements do not contravene the provisions of this Convention.”<sup>97</sup> Similarly, Article 20 of the Berne Convention allows countries to enter into special agreements “in so far as such agreements grant to authors more extensive rights than those granted by the Convention, or contain other provisions not contrary to this Convention.”<sup>98</sup> Article 19 states further that “[t]he provisions of [the Berne] Convention shall not preclude the making of a claim to the benefit of any greater protection which may be granted by legislation in a country of the Union.”<sup>99</sup>

In light of this longstanding pro-autonomy tradition, the WTO panel deserves considerable praise for meticulously discerning China’s minimum obligations in the criminal enforcement area. In its first written submission, China argued that the United States should have a higher burden in substantiating its criminal thresholds claim before the DSB.<sup>100</sup> As China stated, “the Panel should treat sovereign

---

TRIPS-plus obligations); Yu, *supra* note 9 (discussing the use of ACTA to impose TRIPS-plus obligations on other WTO members).

97. Paris Convention for the Protection of Industrial Property art. 19, Mar. 20, 1883, 21 U.S.T. 1583, 828 U.N.T.S. 305 (as revised at Stockholm, July 14, 1967).

98. Berne Convention, *supra* note 68, art. 20. The WIPO Internet Treaties provide a good example of these special agreements. *See, e.g.*, WIPO Copyright Treaty, Dec. 20, 1996, S. TREATY DOC. NO. 105–17, at 1 (1997); WIPO Performances and Phonograms Treaty, Dec. 20, 1996, S. TREATY DOC. NO. 105–17, at 18 (1997).

99. Berne Convention, *supra* note 68, art. 19.

100. As China explained:

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

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

jurisdiction over police powers as a powerful default norm, departure from which can be authorized only in light of explicit and unequivocal consent of State parties.”<sup>101</sup> Although China later backed away from such a strong sovereignty-based position and asserted instead the “well-accepted interpretive canon *in dubio mitius*,”<sup>102</sup> the panel took note of China’s position and openly “acknowledge[d] the sensitive nature of criminal matters and attendant concerns regarding sovereignty.”<sup>103</sup> The panel also recognized that “differences among Members’ respective legal systems and practices tend to be more important in the area of enforcement.”<sup>104</sup>

Although the panel report emphasizes the importance of *minimum* standards, it is worth noting that the TRIPS Agreement includes more than just minimum standards. The Agreement also includes some *maximum* standards, as well as many built-in flexibilities which further facilitate the development of additional maximum standards in local laws. For example, Article 9.2 denies protection to “ideas, procedures, methods of operation or mathematical concepts as such.”<sup>105</sup> Article 27.3(b) also allows for the exclusion of diagnostic, therapeutic, and surgical methods and plants and animals other than

---

specific criminal standards on states.

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

TRIPS Enforcement Panel Report, *supra* note 1, Annex B–1, ¶¶ 11–13.

101. *Id.* ¶ 7.497.

102. *Id.* Annex B–3, ¶ 4. As China elaborated:

This canon holds that when a treaty standard is vague or ambiguous the Panel should choose the interpretation that imposes the least imposition on a country’s sovereignty. The Panel should choose a more intrusive interpretation only where there is clear and specific evidence that a more intrusive interpretation was meant. The logic behind this canon is that countries should not be assumed lightly to concede sovereignty. The Panel accordingly must find specific support for an interpretation that does involve an intrusive concession of sovereignty. . . . The international criminal law cited in China’s first written submission makes clear that this canon has particular justification in the realm of criminal law.

*Id.* ¶¶ 4–6.

103. *Id.* ¶ 7.501.

104. *Id.* ¶ 7.513.

105. TRIPS Agreement art. 9.2.

micro-organisms from patent protection.<sup>106</sup>

Given the existence of these maximum standards, it is no surprise that a growing number of commentators have now argued for the development of more and greater maximum standards in the international intellectual property regime.<sup>107</sup> Such an approach is largely consistent with the position taken by the WTO panel in the present report. While the report emphasizes minimum standards, it does not foreclose any future opportunity for strengthening maximum standards in the TRIPS Agreement.

### B. PRIVATE RIGHTS

The fourth recital of the preamble of the TRIPS Agreement explicitly recognizes that “intellectual property rights are private rights.”<sup>108</sup> As a senior member of the WTO Secretariat recalled, “the reference to ‘private rights’ was included at the insistence of the Hong Kong delegation, which wanted clarification that the enforcement of IPRs is the responsibility of private rights holders, and not of governments.”<sup>109</sup> With a population of about 7 million people and the size of New York City, this customs territory was understandably concerned about the extra resources the government needed to provide for prosecuting infringements of intellectual

---

106. *Id.* art. 27.3(b).

107. *See, e.g.*, Peter K. Yu, *TRIPS and Its Discontents*, 10 MARQ. INTELL. PROP. L. REV. 369, 402 (2006) (“[T]he international intellectual property regime, to some extent, is handicapped by its lack of maximum standards.”); Rochelle Cooper Dreyfuss, *TRIPS—Round II: Should Users Strike Back?*, 71 U. CHI. L. REV. 21, 27 (2004) (“[T]he WTO system must begin to recognize substantive maxima on the scope of available protection . . . .”); Laurence R. Helfer, *Regime Shifting: The TRIPS Agreement and New Dynamics of International Intellectual Property Lawmaking*, 29 YALE J. INT’L L. 1, 58–59 (2004) (discussing how less developed countries can use a strategy of “regime shifting” to develop counter regime norms that set up maximum standards of intellectual property protection); Laurence R. Helfer, *Human Rights and Intellectual Property: Conflict or Coexistence?*, 5 MINN. INTELL. PROP. REV. 47, 58 (2003) (noting the need to articulate “maximum standards of intellectual property protection” because “[t]reaties from Berne to Paris to TRIPS are all concerned with articulating ‘minimum standards’”); Ruth Okediji, *Toward an International Fair Use Doctrine*, 39 COLUM. J. TRANSNAT’L L. 75, 168 (2000) (proposing to develop an international fair use doctrine as a “ceiling”).

108. TRIPS Agreement pmb1.

109. UNCTAD-ICTSD, RESOURCE BOOK ON TRIPS AND DEVELOPMENT 11 n.21 (2005).

property rights—be they civil or criminal. Moreover, at that early stage of the TRIPS negotiations, the delegates had finalized neither Article 61, which mandates criminal enforcement,<sup>110</sup> nor Article 58, which provides for optional *ex officio* actions.<sup>111</sup>

Although the TRIPS preamble “draws heavily upon the two Ministerial Declarations which preceded the Brussels meeting, i.e. the Punta del Este declaration which launched the Round and the Mid-term Review Decision of April 1989,”<sup>112</sup> this part of the preamble “was added towards the end of the negotiations.”<sup>113</sup> As Carlos Correa observed:

It is unclear why the negotiating parties included in the Preamble a statement about the ‘private’ nature of covered IPRs. One possible reason is that the TRIPS Agreement uncomfortably fits within the WTO framework, as it is the only multilateral agreement that deals directly with rights of private parties rather than with governmental measures. Another possible reason is the desire to make clear that Members were not obliged to take action *ex officio*, and that title-holders should bear the burden of exercising and defending their rights.<sup>114</sup>

The preamble’s emphasis on the private nature of intellectual property rights is important, because Article 31.2 of the Vienna Convention on the Law of Treaties (“Vienna Convention”) states clearly that “[t]he context for the purpose of the interpretation of a treaty shall comprise . . . its *preamble* and annexes.”<sup>115</sup> Indeed, commentators have generally considered the preamble “an integral part of the agreement, a condensed expression of its underlying principles.”<sup>116</sup> It is therefore understandable that the panel gave the

---

110. TRIPS Agreement art. 61.

111. *Id.* art. 58; *see also* DANIEL GERVAIS, THE TRIPS AGREEMENT: DRAFTING HISTORY AND ANALYSIS 487 (3d ed. 2008) (“Article 58 is . . . a ‘may’ provision . . . Its purpose is not to impose *ex officio* measures . . . but to dictate a framework for such measures where they exist and indicate that framework complies with TRIPS obligations.”).

112. GERVAIS, *supra* note 111, at 155.

113. *Id.* at 156.

114. CARLOS M. CORREA, TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS: A COMMENTARY ON THE TRIPS AGREEMENT 10 (2007).

115. Vienna Convention on the Law of Treaties art. 31.2, May 23, 1969, 1155 U.N.T.S. 331 (1969) [hereinafter Vienna Convention] (emphasis added).

116. GERVAIS, *supra* note 111, at 154–55; *see also* CORREA, *supra* note 114, at 17 (“The text of the preamble is an important source of interpretation to clarify the meaning of treaty provisions. In fact, owing to the controversial nature of the

preamble due interpretative weight.

In interpreting Article 59 of the TRIPS Agreement, for example, the present panel report makes clear that “the phrase ‘shall have the authority’ does not require Members to take any action in the absence of an application or request.”<sup>117</sup> The panel recalled the preambular language in the TRIPS Agreement, which emphasizes the private nature of intellectual property rights.<sup>118</sup> The panel further noted the use of words such as “applicant” and “request” in various enforcement provisions of the TRIPS Agreement.<sup>119</sup> Thus, unlike the heightened international intellectual property enforcement standards that developed countries are now pushing globally through ACTA and other bilateral, plurilateral, or regional trade agreements, the TRIPS Agreement—which codified internationally recognized minimum standards in the early 1990s<sup>120</sup>—did not require the

---

issues covered by the TRIPS Agreement, many of its provisions are ambiguous or deliberately leave Members room for interpretation. The ‘context’ provided by the preamble becomes, hence, particularly relevant in this case.”); UNCTAD-ICTSD, *supra* note 109, at 2 (“Government officials and judges may use the preamble of a treaty as a source of interpretative guidance in the process of implementation and dispute settlement.”).

117. TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.247.

118. *See id.* ¶ 7.530; *see also* Li Xuan, *Ten General Misconceptions About the Enforcement of Intellectual Property Rights*, in *INTELLECTUAL PROPERTY ENFORCEMENT: INTERNATIONAL PERSPECTIVES* 14, 27 (Li Xuan & Carlos M. Correa eds., 2009) (“As with any other kind of private rights, the enforcement of IP rights is primarily a matter concerning individual owners of these rights. It is the primary obligation of right-holders and not governments to enforce their claimed rights and take necessary legal actions for protecting their own IPR.”).

119. *See* TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.247 (“The Panel . . . observes that a common feature of Sections 2, 3 and 4 of Part III of the TRIPS Agreement is that the initiation of procedures under these Sections is generally the responsibility of private rights holders. This is reflected in the first sentence of Article 42 and the first sentence of Article 51, the reference to an ‘applicant’ in Article 50.3 and 50.5, the reference to ‘request[s]’ in Articles 46 and 48.1, and the option (not obligation) to make *ex officio* action available under Article 58.”).

120. *See* Daniel J. Gervais, *The TRIPS Agreement and the Doha Round: History and Impact on Economic Development*, in *4 INTELLECTUAL PROPERTY AND INFORMATION WEALTH: ISSUES AND PRACTICES IN THE DIGITAL AGE* 23, 43 (Peter K. Yu ed., 2007) (“TRIPS adjusted the level of intellectual property protection to what was the highest common denominator among major industrialized countries as of 1991.”); *see also id.* at 29 (“The 1992 text was not extensively modified and became the basis for the TRIPS Agreement adopted at Marrakesh on April 15, 1994.”).



provision of *ex officio* authority to seize allegedly infringing goods.<sup>121</sup> Indeed, Article 58 of the TRIPS Agreement, which specifically deals with the situation where domestic laws provide for *ex officio* actions, was included only as a “may” provision.<sup>122</sup>

The panel’s emphasis on intellectual property rights as private rights is particularly timely, in light of the developed countries’ recent demands for greater criminal enforcement, *ex officio* authority, and data exclusivity on the part of regulatory authorities. Such demands have gradually shifted the costs and responsibilities from private rights holders to national governments.<sup>123</sup> From the standpoint of less developed countries, this shift is highly undesirable because stronger enforcement often comes with a hefty price tag and difficult trade-offs.<sup>124</sup> Given the limited resources in many less developed countries, an increased use of resources in the

---

121. See GERVAIS, *supra* note 111, at 156 (noting that the fourth paragraph of the TRIPS preamble was added “to reaffirm that states are not, as a general rule, obliged to take action *ex officio* against violations of intellectual property rights (though the Agreement makes clear that in certain cases such actions must be available—see in particular art. 58 but also 22(3) and 23(2))”).

122. See *id.* 487 (noting that the purpose of Article 58 “is not to impose *ex officio* measures . . . but to dictate a framework for such measures where they exist and indicate that framework complies with TRIPS obligations”).

123. As Professor Correa noted:

Criminalization is regarded by its proponents as a stronger deterrent than civil remedies. For right holders there are some significant advantages: actions can or must be initiated *ex officio* and the cost of procedures is fully borne by the states. However, it is clear that IPRs are private rights and that states’ only obligation under the TRIPS Agreement is to ensure that enforcement procedures are available, and not to enforce IPRs themselves on its own cost and responsibility.

Carlos M. Correa, *The Push for Stronger Enforcement Rules: Implications for Developing Countries*, in ICTSD, *THE GLOBAL DEBATE ON THE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS AND DEVELOPING COUNTRIES* 27, 42 (2009) (footnote omitted), available at <http://ictsd.org/downloads/2009/03/fink-correa-web.pdf>; see also Li, *supra* note 118, at 28 (“[R]esponsibility of enforcement has cost implications. . . . [B]y shifting responsibility, it would shift the cost of enforcement from private parties to the government and ensure right-holders are beneficiaries without asking responsibility.”); Henning Grosse Ruse-Khan, *Redelineation of the Role of Stakeholders: IP Enforcement Beyond Exclusive Rights*, in *INTELLECTUAL PROPERTY ENFORCEMENT: INTERNATIONAL PERSPECTIVES*, *supra* note 118 at 43, 51–52 (noting the trend of “externalizing the risks and resources to enforce IP rights away from the originally responsible rights-holders towards state authorities”).

124. See generally Peter K. Yu, *Enforcement, Economics and Estimates*, 2 *WIPO J.* 1 (2010).

enforcement area inevitably will lead to the withdrawal of resources from other competing, and at times more important, public needs. Such needs include purification of water, generation of power, improvement on public health, reduction of child mortality, provision of education, promotion of public security, building of basic infrastructure, reduction of violent crimes, relief of poverty, elimination of hunger, promotion of gender equality, protection of the environment, and responses to terrorism, illegal arms sales, human and drug trafficking, illegal immigration, and corruption.<sup>125</sup>

---

125. See, e.g., Correa, *supra* note 123, at 43 (“[I]n developing countries that suffer from high levels of street crime and other forms of criminality that put at risk the life, integrity, or freedom of persons on a daily basis, it seems reasonable that fighting such crimes should receive higher priority than IP-related crimes where protected interests are essentially of a commercial nature (except when associated with adulteration of health and other risky products.)”); Carsten Fink, *Enforcing Intellectual Property Rights: An Economic Perspective*, in THE GLOBAL DEBATE ON THE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS AND DEVELOPING COUNTRIES, *supra* note 123, at xiii, 2 (“Governments need to make choices about how many resources to spend on combating piracy, as opposed to enforcing other areas of law, building roads and bridges, protecting national security, and providing other public goods. Such choices are usually not stated in explicit terms, but they underlie every budgetary decision by federal and local governments.”); Li Xuan & Carlos M. Correa, *Towards a Development Approach on IP Enforcement: Conclusions and Strategic Recommendations*, in INTELLECTUAL PROPERTY ENFORCEMENT: INTERNATIONAL PERSPECTIVES, *supra* note 118 at 207, 210 (noting that the demands for strengthened intellectual property enforcement “seem to overlook the cost of the required actions, the different priorities that exist in developing countries regarding the use of public funds (health and education would normally be regarded as more urgent than IP enforcement) and the crucial fact that IPRs are *private rights* and, hence, the burden and cost of their enforcement is to be borne by the right-holder, not the public at large”); Xue Hong, *Enforcement for Development: Why Not an Agenda for the Developing World*, in INTELLECTUAL PROPERTY ENFORCEMENT: INTERNATIONAL PERSPECTIVES, *supra* note 118 at 133, 143 (“Increment and strength of public enforcement measures will inevitably impose an economic burden on the developing countries and divert the priorities of these countries, such as prosecution of violent crimes or relief of poverty.”); Frederick M. Abbott & Carlos M. Correa, *World Trade Organization Accession Agreements: Intellectual Property Issues* 31 (Quaker United Nations Office, Global Economic Issues Paper No. 6, 2007), available at <http://www.quno.org/geneva/pdf/economic/Issues/WTO-IP-English.pdf> (“For many developing countries, protection of IPR is not, nor should it be, a national priority. Financial resources are better invested in public infrastructure projects, such as water purification and power generation.”); Ermias Tekeste Biadgleng & Viviana Munoz Tellez, *The Changing Structure and Governance of Intellectual Property Enforcement* 4 (South Centre, Research Paper No. 15, 2008), available at [http://www.southcentre.org/index.php?option=com\\_](http://www.southcentre.org/index.php?option=com_)

More problematically, this shift of responsibility may ultimately backfire on those countries that seek to use intellectual property protection to attract foreign investment. For instance, strengthening border control requires the development of specialized expertise and sophistication on the part of customs authorities. If these authorities fail to develop the requisite expertise and sophistication, their inconsistent—and at times wrongful—application of new, and usually tougher, border measures may lead to uncertainty and concerns that eventually frighten away foreign investors.<sup>126</sup> Even worse, the irregularities in applying these measures may become the subject of complaints firms register with their governments. These complaints, in turn, may lead to greater pressure from foreign governments—for example, through the notorious Section 301 process in the United States.<sup>127</sup>

In the end, what started as a country's attempt to attract foreign investment and promote economic development ends up being a heavy burden on its already resource-deficient balance sheet. It is no wonder that the U.K. Commission on Intellectual Property Rights

---

docman&task=doc\_download&gid=714&Itemid=&lang=en (“Police raids and the use of criminal law enforcement mechanisms . . . require extensive use of public funds and in developing countries may entail pulling resources away from other law enforcement efforts when there are other means, particularly via civil law, that may be strengthened to allow private parties to enforce their rights and which do not require extensive use of public funds.”); Susan K. Sell, *The Global IP Upward Ratchet, Anti-Counterfeiting and Piracy Enforcement Efforts: The State of Play 9* (IQsensato, Occasional Papers No. 1, 2008), available at [http://www.iqsensato.org/wp-content/uploads/Sell\\_IP\\_Enforcement\\_State\\_of\\_Play-OPs\\_1\\_June\\_2008.pdf](http://www.iqsensato.org/wp-content/uploads/Sell_IP_Enforcement_State_of_Play-OPs_1_June_2008.pdf) (“The opportunity costs of switching scarce resources for border enforcement of IP ‘crimes’ is huge. There surely are more pressing problems for law enforcement in developing countries than ensuring profits for OECD-based firms.”); Robin Gross, *ACTA’s Misguided Effort to Increase Govt Spying and Ratchet-Up IPR Enforcement at Public Expense*, IP JUST. (Mar. 21, 2008), <http://ipjustice.org/wp/2008/03/21/acta-ipj-comments-ustr-2008march/> (“The financial expense to tax-payers to fund ACTA would be enormous and steal scarce resources away from programs that deal with genuine public needs like providing education and eliminating hunger. ACTA would burden the judicial system and divert badly needed law enforcement and customs resources away from public security and towards private profit.”).

126. See Ruse-Khan, *supra* note 123, at 52 (“[E]x-officio actions . . . not only shift the initiative and costs for taking action to the state but also entail significant risks of damaging claims by affected importers whenever the goods suspended in the end are not IP infringing.”).

127. See Yu, *supra* note 9, at 73–74.

recommended against this particular trend:

[A]s state enforcement of IPRs is a resource-intensive activity, there is a strong case for developing countries to adopt IPR legislation that emphasises enforcement through a civil rather than a criminal justice system. . . . [W]e note that developing countries have come under pressure from industry which advocates enforcement regimes based on state initiatives for the prosecution of infringements. Such pressures should be resisted, and right owners assume the initiative and costs of enforcing their private rights.<sup>128</sup>

It is important to remember that, although increased enforcement standards pose more considerable challenges to less developed countries as a result of their acute capacity and resource constraints, similar constraints affect developed countries, though to a lesser degree. In the United States, for example, Tim Trainer, the former president of the International AntiCounterfeiting Coalition, lamented how “the staff dedicated solely to IPR enforcement [in the U.S. government] could be counted on two hands.”<sup>129</sup> Likewise, Chris Israel, the former U.S. International IPR Enforcement Coordinator, testified before the U.S.-China Economic and Security Review Commission that “[w]ith finite resources and seemingly infinite concerns, how [the United States] focus[es its] efforts is crucial.”<sup>130</sup> In the same public hearing, a former associate commissioner of the U.S. Food and Drug Administration also noted his administration’s need to focus on getting “the best bang for the regulatory dollar . . . [and going] after the big time criminals.”<sup>131</sup> Even Tim Philips, a

---

128. COMM’N ON INTELLECTUAL PROP. RIGHTS, INTEGRATING INTELLECTUAL PROPERTY RIGHTS AND DEVELOPMENT POLICY: REPORT OF THE COMMISSION ON INTELLECTUAL PROPERTY RIGHTS 147 (2002) [hereinafter IPR COMMISSION REPORT], available at [http://www.iprcommission.org/papers/pdfs/final\\_report/CIPRfullfinal.pdf](http://www.iprcommission.org/papers/pdfs/final_report/CIPRfullfinal.pdf).

129. Timothy P. Trainer, *Intellectual Property Enforcement: A Reality Gap (Insufficient Assistance, Ineffective Implementation)?*, 8 J. MARSHALL REV. INTELL. PROP. L. 47, 58 (2008).

130. *Intellectual Property Rights Issues and Imported Counterfeit Goods: Hearing Before the U.S.-China Econ. & Sec. Review Comm’n*, 109th Cong. 9 (2006) (written testimony of Chris Israel, International IPR Enforcement Coordinator, U.S. Dep’t of Commerce).

131. *Intellectual Property Rights Issues and Imported Counterfeit Goods: Hearing Before the U.S.-China Econ. & Sec. Review Comm’n*, 109th Cong. 183 (2006) (oral testimony of Peter Pitts, President, Center for Medicine in the Public Interest, New York).

staunch advocate of tough intellectual property enforcement, acknowledged the impossibility for the New York Police Department “to raid all the warehouses all of the time without swallowing the entire NYPD anti-counterfeiting budget and taking officers off other duties.”<sup>132</sup> If developed countries face significant challenges in providing the resources needed to strengthen intellectual property enforcement, it is understandable why their less developed counterparts are deeply concerned about the growing demands for resources needed to meet high international intellectual property enforcement standards.

### C. SUBSEQUENT PRACTICE

Article 31.3 of the Vienna Convention states that “there shall be taken into account, together with the context . . . any subsequent agreement between the parties regarding the interpretation of the treaty or the application of its provisions.”<sup>133</sup> Drawing on this provision, China advanced the United States–Australia Free Trade Agreement as an indication of how the TRIPS delegates at the time of the negotiations had not yet adopted the U.S.-proposed definition of “commercial scale.”<sup>134</sup> The panel, however, declined to treat such an agreement as a subsequent agreement within the meaning of the Vienna Convention.<sup>135</sup> After all, U.S. free trade agreements are negotiated on a bilateral or plurilateral basis, and China is not a party

---

132. TIM PHILLIPS, *KNOCKOFF: THE DEADLY TRADE IN COUNTERFEIT GOODS* 36 (2005).

133. Vienna Convention, *supra* note 115, art. 31.3.

134. For example, the United States–Australia Free Trade Agreement states:

Wilful copyright piracy on a commercial scale includes:

(i) significant wilful infringements of copyright, that have no direct or indirect motivation of financial gain; and

(ii) wilful infringements for the purposes of commercial advantage or financial gain.

United States–Australia Free Trade Agreement, U.S.-Austl., art. 17.1.26(a), May 18, 2004, 118 Stat. 919. As China explained:

There would be no reason to negotiate this definition with countries that already are subject to the TRIPS obligations, if the terms already had this meaning in TRIPS. On the contrary, the US insistence on developing a stricter definition in the bilateral context underscores that “commercial scale” as set forth in TRIPS is a broad concept that permits considerable national discretion. It is an acknowledgement that the United States failed to secure in the TRIPS Article 61 negotiations the obligation that it nonetheless seeks to impose here.

TRIPS Enforcement Panel Report, *supra* note 1, Annex B–1, ¶ 25.

135. *See id.* ¶ 7.581.

to any these agreements. Notwithstanding the panel's rejection of China's attempt to introduce a post-TRIPS bilateral trade agreement as evidence, the final outcome actually benefited not only China, but also other less developed countries.

As the panel reasoned, the definition of "commercial scale" adopted by the negotiators in the TRIPS Agreement may be somewhat different from what the United States proposed (and adopted in its free trade agreements). For example, the panel reminded the United States that the country, "[i]n response to a question from the Panel, . . . confirmed that its own Copyright Law was only amended in 1997 to deal with the problem of massive infringement, such as via the Internet, even if the infringing activity is not necessarily pursued for financial gain."<sup>136</sup> The panel also "emphasize[d] that its findings should not be taken to indicate any view as to whether the obligation in the first sentence of Article 61 of the TRIPS Agreement applies to acts of counterfeiting and piracy committed without any purpose of financial gain."<sup>137</sup> To some extent, the panel concurred with China's position (and that of other less developed countries) that, under the TRIPS Agreement, "criminal enforcement is required if the infringing activity is on a commercial scale, not if the *impact* of the infringing activity is on a commercial scale."<sup>138</sup>

Moreover, by rejecting the recently-negotiated bilateral, plurilateral, and regional trade agreements as subsequent agreements within the meaning of the Vienna Convention, the panel successfully preserved the balance of rights and obligations in the TRIPS Agreement. One of the main concerns among less developed countries is the spillover effects of bilateral, plurilateral, and regional trade agreements on commitments they obtained through the TRIPS negotiations.<sup>139</sup> By recognizing that these newly-negotiated

---

136. *Id.* ¶ 7.660; see No Electronic Theft (Net) Act, Pub. L. No. 105-147, 111 Stat. 2678 (1997) (codified as amended in scattered sections of 17 U.S.C. and 18 U.S.C.) (amending the U.S. Copyright Act to extend criminal liability for copyright infringement to individuals who have not made any monetary profit through their infringing activities).

137. TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.662.

138. *Id.* Annex B-1, ¶ 33 (emphasis added).

139. See generally Yu, *supra* note 96, at 392-400 (discussing the growing use of bilateral and regional trade agreements to create TRIPS-plus obligations).

agreements do not enter the WTO framework through the backdoor, the panel alleviated some of the concerns over the use of these agreements to circumvent the multilateral process.

Finally, the panel left open the door for less developed countries to challenge the inconsistency of these agreements with the TRIPS Agreement. The second sentence of Article 1.1 of the TRIPS Agreement stipulates that “[m]embers may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement.”<sup>140</sup> Some member states, policymakers, and commentators therefore correctly read this provision as a *ceiling* that requires members not to implement more extensive protection than the Agreement requires if such additional protection would contravene the Agreement.<sup>141</sup> As the Indian delegation recently noted in its intervention at the TRIPS Council:

Although TRIPS Agreement is usually considered to be a minimum levels agreement, *enforcement levels cannot be raised to the extent that they contravene TRIPS Agreement*. TRIPS plus measures cannot be justified on the basis of Art 1:1 since the same provision also states that more extensive protection may only be granted “provided that such protection does not contravene the provisions of this Agreement”.

In addition to laying certain minimum standards, TRIPS Agreement also provides ‘ceilings’, some of which are mandatory and clearly specified in the TRIPS Agreement. Moreover, the TRIPS Agreement has achieved a very careful balance of the interests of the right holders on the one hand, and societal interests, including development-oriented concerns on the other. Enforcement measures cannot be viewed in isolation of the Objectives contained in Art 7 . . . .<sup>142</sup>

The position India took makes good sense. After all, “higher levels

---

140. TRIPS Agreement art. 1.1.

141. See Henning Grosse Ruse-Khan, *A Trade Agreement Creating Barriers to International Trade? ACTA Border Measures and Goods in Transit*, 26 AM. U. INT'L L. REV. 644, 653–57 (2011).

142. Council for Trade-Related Aspects of Intellectual Prop. Rights [TRIPS Council], *Communication from India, Intervention on TRIPS plus Enforcement Trends* (June 9, 2010), reprinted in *Why “IPR Enforcement” in ACTA & FTAs Harm the South*, S. BULL., July 28, 2010, at 10–11; see also TRIPS Council, Minutes of June 8–9, 2010 Meeting, ¶ 265, IP/C/M/63 (Oct. 4, 2010), available at [http://www.wto.org/english/tratop\\_e/trips\\_e/intel6\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/intel6_e.htm) (providing the official minutes of the TRIPS Council meeting).

of IPR protection may create barriers to legitimate trade”—a key concern of both the WTO and its TRIPS Agreement.<sup>143</sup>

As far as the interpretation of Article 1.1 is concerned, its negotiation history should not be ignored. As Daniel Gervais recounted, “earlier drafts, including that of Japan and informal drafts in circulation before the Brussels meeting, stated unambiguously that the Agreement contained ‘minimum obligations.’”<sup>144</sup> The drafts submitted by the European Communities and the United States, for example, used the negative language “nothing shall prevent PARTIES from [implementing TRIPS-plus measures] . . . .”<sup>145</sup> The current language, however, states that “Members may, but shall not be obliged to” implement such measures.<sup>146</sup> To some extent, the present language reflects the rare gains less developed countries made during the TRIPS negotiations.<sup>147</sup> As Professor Correa emphatically declared: “[I]n language that seems to address developing countries’ concerns, [the TRIPS Agreement] explicitly states that no Member can be ‘obliged’ to implement in its national law ‘more extensive protection than is required by this Agreement.’”<sup>148</sup>

#### D. LOCAL CONDITIONS

Article 61 includes an undefined, ambiguous term “commercial scale.”<sup>149</sup> To give meaning to this term, the present panel used the dictionary approach to indicate that the term has both qualitative and quantitative elements.<sup>150</sup> While the panel could have adopted a

---

143. CORREA, *supra* note 114, at 25.

144. GERVAIS, *supra* note 111, at 164.

145. *Id.*

146. TRIPS Agreement art. 1.1.

147. *See* GERVAIS, *supra* note 111, at 164 (“[I]t could be said that para.1 indirectly emphasises the fact that the Agreement did not achieve all that some countries wished.”).

148. CORREA, *supra* note 114, at 24 (citing TRIPS Agreement art. 1.1).

149. TRIPS Agreement art. 61.

150. *See* TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.538. As the panel elaborated:

[T]he combination of that definition of “commercial” with the definition of “scale” presents a problem in that scale is a quantitative concept whilst commercial is qualitative, in the sense that it refers to the nature of certain acts. Some acts are in fact commercial, whilst others are not. Any act of selling can be described as commercial in this primary sense, irrespective of its size or value. If “commercial” is simply read



universal definition of “commercial scale” that mirrors the TRIPS Agreement’s one-size-fits-all approach, it wisely decided otherwise. Instead, the panel report states that the term “commercial scale” provides “a relative standard, which will vary when applied to different fact situations.”<sup>151</sup> Because “counterfeiting or piracy ‘on a commercial scale’ refers to counterfeiting or piracy carried on at the magnitude or extent of typical or usual commercial activity with respect to a given product in a given market,”<sup>152</sup> the panel had to look to specific conditions in China’s marketplace to determine whether its criminal thresholds have violated the TRIPS Agreement.<sup>153</sup>

While the panel’s willingness to appreciate local conditions is highly welcome, it also signals some challenges for future complainants. In the present dispute, for example, the market conditions are highly complex. The Chinese market is notoriously “fragmented and characterized by a profusion of small manufacturers, middlemen, distributors, and small outlets at the retail level.”<sup>154</sup> As the United States elaborated in its first written

---

as a qualitative term, referring to all acts pertaining to, or bearing on commerce, this would read the word “scale” out of the text. Acts on a commercial scale would simply be commercial acts. The phrase “on a commercial scale” would simply mean “commercial”. Such an interpretation fails to give meaning to all the terms used in the treaty and is inconsistent with the rule of effective treaty interpretation.

There are no other uses of the word “scale” in the TRIPS Agreement, besides the first and fourth sentences of Article 61. However, the wider context shows that the TRIPS Agreement frequently uses the word “commercial” with many other nouns, although nowhere else with “scale”. The other uses of the word “commercial” include “commercial rental”, “commercial purposes”, “commercial exploitation”, “commercial terms”, “public non-commercial use”, “first commercial exploitation”, “honest commercial practices”, “commercial value”, “unfair commercial use”, “non-commercial nature” and “legitimate commercial interests”.

*Id.* ¶¶ 7.538–7.539 (footnotes omitted).

151. *Id.* ¶ 7.600.

152. *Id.* ¶ 7.577.

153. *See id.* ¶ 7.604 (“The parties agree that the standard of ‘a commercial scale’ will vary by product and market and that the conformity of China’s criminal thresholds with that standard must be assessed by reference to China’s marketplace.”).

154. *Id.* ¶ 7.615; *see also* Responses by the United States of America to the Questions by the Panel to the Parties, *China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, ¶ 41 n.20, WT/DS362/1 (May 5, 2007) (“Although the Chinese retail market is huge, it is extremely fragmented, with no dominant organized players. The top 10 retailers hold less than 2 percent of the market, and the top 100 retailers have less than 6.4 percent.” (quoting A.T. KEARNEY, THE 2005 GLOBAL RETAIL DEVELOPMENT INDEX: DESTINATION CHINA

submission:

[A] single wholesale mall in Yiwu, China houses some 30,000 stores, many of them in small 10-by-15 foot stalls. Retail establishments come in many different sizes and are widely dispersed across China. Another shopping mall in Luohu Commercial City spans six floors of small stores and offers “counterfeit goods at bargain prices.” In spite of the recent growth of large retailers in China, much retail commerce appears to still be conducted through small outlets, and consequently beyond the reach of criminal sanctions due to the criminal thresholds.<sup>155</sup>

To some extent, one could wonder whether the TRIPS delegates anticipated this type of highly fragmented markets when they negotiated the specific language in Article 61.

Notwithstanding the challenge in collecting information about market conditions, the present panel insisted on obtaining authoritative information specific to the local markets, such as information on pricing and market structures.<sup>156</sup> The panel’s requirements of this type of evidence not only benefit less developed countries in the WTO process, but also provide a major boost to the growing demands for empirical studies or impact assessments on the push for greater intellectual property protection and enforcement. After all, international organizations, policymakers, and commentators have already widely endorsed such assessments in the areas of human rights, public health, and biological diversity.<sup>157</sup>

---

(2005), available at <http://www.atkearney.com/index.php/Publications/the-2005-global-retail-development-index-destination-china.html>)).

155. First Submission of the United States of America, *China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, ¶ 122, WT/DS362/1 (Jan. 30, 2008) (footnote omitted).

156. See TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.629 (stating that the information contained in the press articles submitted by the United States was “inadequate to demonstrate what is typical or usual in China for the purposes of the relevant treaty obligation”); *id.* ¶ 7.630 (“[I]t can be noted that more specific information on prices and markets in China is contained in various US exhibits, notably information on prices of products in a report on Cinema and Home Entertainment in China prepared by Screen Digest and Nielsen NRG . . . and in annexes to a letter from Nintendo of America to the United States Trade Representative.” (footnote omitted)).

157. See, e.g., Convention on Biological Diversity art. 14(1)(a), June 5, 1992, 1760 U.N.T.S. 79 (requiring contracting parties to “introduce appropriate procedures requiring environmental impact assessment of its proposed projects that are likely to have significant adverse effects on biological diversity with a view to

Moreover, the panel's push for an evidence-based approach is highly important from the standpoint of future development of internationally recognized intellectual property standards. As the U.K. Commission on Intellectual Property Rights reminded us, the protection and enforcement of intellectual property rights is "a means to an end, not an end in itself."<sup>158</sup> These rights, therefore, should not be developed based on a mere leap of faith. By focusing on the need to appreciate local conditions and by taking an evidence-based approach, the panel report helps slow down the ongoing push for one-size-fits-all—or more precisely, super-size-fits-all—standards through the TRIPS Agreement and other international instruments. It also reflects the fact that intellectual property rights, though an important policy tool, form only part of a larger innovation system.

#### E. SUBSTANTIVE EVIDENCE

Relating to the previous point, and even better from the standpoint of less developed countries, the present panel demanded *substantive*, as opposed to *anecdotal*, evidence. As mentioned earlier, the panel report rejects the use of allegations in nonauthoritative press articles or highly aggregated data in consultant and industry reports.<sup>159</sup> The panel's demand for substantive evidence is not limited to the United States. It is consistent throughout the panel proceedings.

With respect to the first claim on censorship, for example, the

---

avoiding or minimizing such effects and, where appropriate, allow for public participation in such procedures"); U.N. Econ. & Soc. Council, Comm. on Econ., Soc. & Cultural Rights, *General Comment No. 17: The Right of Everyone to Benefit from the Protection of the Moral and Material Interests Resulting from Any Scientific, Literary or Artistic Production of Which He Is the Author (Article 15, Paragraph 1(c), of the Covenant)*, ¶ 35, U.N. Doc. E/C.12/GC/17 (Jan. 12, 2006) ("States parties should . . . consider undertaking human rights impact assessments prior to the adoption and after a period of implementation of legislation for the protection of the moral and material interests resulting from one's scientific, literary or artistic productions."); WORLD HEALTH ORG., PUBLIC HEALTH, INNOVATION AND INTELLECTUAL PROPERTY RIGHTS: REPORT OF THE COMMISSION ON INTELLECTUAL PROPERTY RIGHTS, INNOVATION AND PUBLIC HEALTH 10 (2006), available at <http://www.who.int/intellectualproperty/documents/thereport/ENPublicHealthReport.pdf> ("Health policies, as well as inter alia those addressing trade, the environment and commerce, should be equally subject to assessments as to their impact on the right to health.").

158. See IPR COMMISSION REPORT, *supra* note 128, at 6.

159. See TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.629.

panel made equal demands for substantive evidence—this time from China. Although China’s efforts to ban immoral and politically-sensitive works are well-known and have been widely documented, the panel refused to take “judicial notice” of censorship in China.<sup>160</sup> Instead, the panel expected China to substantiate its assertion that rights holders will obtain greater protection through censorship regulations than copyright law—just like its later demand for evidence from the United States concerning the criminal threshold claim.<sup>161</sup>

Likewise, the panel demanded substantive evidence when China defended its criminal thresholds by pointing out that Chinese criminal law allows for private prosecution.<sup>162</sup> As China claimed, “defining a crime with too low a threshold ‘could unleash a large volume of private enforcement actions and impose a significant burden on the judicial system.’”<sup>163</sup> Although the panel did not reject China’s concern outright, it pointed out China’s failure to substantiate such a concern. As the panel maintained, China “lacked any data relevant to its experience after it lowered thresholds for the crimes infringing intellectual property crimes in 2004.”<sup>164</sup> Without the needed substantive evidence, the panel did not consider China’s claim further.

In the intellectual property context, the panel’s emphasis on authoritative substantive evidence is highly important. To date, much of the data used in media and government reports is supplied by self-

---

160. The panel’s approach contrasts strongly with the preference of some U.S. policymakers. See, e.g., *Intellectual Property Rights Issues and Imported Counterfeit Goods: Hearing Before the U.S.-China Econ. & Sec. Review Comm’n*, 109th Cong. 73 (2006) (remarks of Commissioner Patrick Mulloy) (“Maybe [the United States] could ask the court at the WTO to take judicial notice because sometimes you can ask a court to do that, and based on what the WTO itself has said about China, I don’t understand why there is this enormous rock to lift up this hill when everybody knows and will say it’s going on.”).

161. See TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.137 (“China maintains that public censorship renders private enforcement unnecessary, that it enforces prohibitions on content seriously, and that this removes banned content from the public domain more securely than would be possible through copyright enforcement. The Panel notes that these assertions, even if they were relevant, are not substantiated.” (footnote omitted)).

162. See *id.* ¶ 7.598 (quoting China’s first written submission).

163. *Id.*

164. *Id.*

interested trade groups.<sup>165</sup> They are highly suspect, and policymakers, commentators, and academics have widely questioned their accuracy. Consider, for example, the figures supplied by the Business Software Alliance (“BSA”) in its effort to document global piracy rates.<sup>166</sup> A draft Australian government report described these statistics “as a ‘self-serving hyperbole’ [that is] ‘unverified and epistemologically unreliable.’”<sup>167</sup> Likewise, Gary Shapiro, the president of the Consumer Electronics Association, called these figures “absurd on [their] face” and “patently obscene.”<sup>168</sup> Ivan Png further demonstrated that the BSA’s change of consultants had led to a change in methodology for measurement, which in turn resulted in systematic effects on published piracy rates.<sup>169</sup> Among the widely criticized flaws of the BSA studies are the highly incredulous one-to-one substitution rate between legal and infringing goods,<sup>170</sup> the overvaluation of pirated and counterfeit goods,<sup>171</sup> and the failure to recognize the existence of a wide variety of offsetting welfare benefits.<sup>172</sup>

---

165. The lack of independently verified evidence is due in part to the practical challenges to collecting data about illicit activities. See ROBERT M. SHERWOOD, INTELLECTUAL PROPERTY AND ECONOMIC DEVELOPMENT 68 (1990); U.S. GOV’T ACCOUNTABILITY OFFICE, GAO-10-423, INTELLECTUAL PROPERTY: OBSERVATIONS ON EFFORTS TO QUANTIFY THE ECONOMIC EFFECTS OF COUNTERFEIT AND PIRATED GOODS 16–17 (2010) [hereinafter GAO STUDY].

166. See BUS. SOFTWARE ALLIANCE & INT’L DATA CORP., SEVENTH ANNUAL BSA/IDC GLOBAL SOFTWARE PIRACY STUDY (2010) available at [http://portal.bsa.org/globalpiracy2009/studies/09\\_Piracy\\_Study\\_Report\\_A4\\_final\\_111010.pdf](http://portal.bsa.org/globalpiracy2009/studies/09_Piracy_Study_Report_A4_final_111010.pdf).

167. Li, *supra* note 118, at 25.

168. *Software Piracy: BSA or Just BS?*, ECONOMIST, May 21, 2005, at 93.

169. See I.P.L. Png, *On the Reliability of Software Piracy Statistics*, 9 ELEC. COM. RES. & APPLICATIONS 365, 365 (2010).

170. See GAO STUDY, *supra* note 165, at 17. As Carsten Fink observed in an issue paper he wrote before joining WIPO as its first-ever chief economist:

[BSA’s assumption] that, in the absence of piracy, all consumers of pirated software would switch to legitimate copies at their current prices . . . is unrealistic—especially in developing countries where low incomes would likely imply that many consumers would not demand any legitimate software at all. Accordingly, estimated revenue losses by software producers are bound to be overestimated.

Fink, *supra* note 125, at 13.

171. See GAO STUDY, *supra* note 165, at 17–18.

172. As the U.S. Government Accountability Office (“GAO”) pointed out in its recent study, although piracy and counterfeiting may affect the core intellectual property industries, these industries, along with those in other sectors and individual consumers, may have obtained offsetting benefits. *Id.* at 15. As stated in

To be certain, substantive evidence is costly to collect. The demand for such evidence, therefore, can make it difficult for less developed countries to bring forth WTO claims. Nevertheless, because less developed countries, until recently, have always participated in the dispute settlement process as respondents,<sup>173</sup> the DSB's demand for the production of substantive evidence on local conditions actually may favor less developed countries more than it harms them.

#### F. HOPE AND ENCOURAGEMENT

The present panel report gives hope and encouragement to less developed countries, which have become more frequent users of the WTO dispute settlement process in recent years.<sup>174</sup> It is important to

---

the study:

[C]onsumers may use pirated goods to “sample” music, movies, software, or electronic games before purchasing legitimate copies, which may lead to increased sales of legitimate goods. In addition, industries with products that are characterized by large “switching costs,” may also benefit from piracy due to lock-in effects. . . . [Moreover,] companies that experience revenue losses in one line of business—such as movies—may . . . increase revenues in related or complementary businesses due to increased brand awareness. For instance, companies may experience increased revenues due to the sales of merchandise that are based on movie characters whose popularity is enhanced by sales of pirated movies. One expert also observed that some industries may experience an increase in demand for their products because of piracy in other industries. This expert identified Internet infrastructure manufacturers (e.g., companies that make routers) as possible beneficiaries of digital piracy, because of the bandwidth demands related to the transfer of pirated digital content. While competitive pressure to keep one step ahead of counterfeiters may spur innovation in some cases, some of this innovation may be oriented toward anticounterfeiting and antipiracy efforts, rather than enhancing the product for consumers.

*Id.* Although the GAO study did not go further, one could easily question how much of the losses the intellectual property industries claimed to have suffered would be cancelled out by these benefits. If the benefits indeed outweigh the claimed losses, the country will have a *net* economic gain even though the core intellectual property industries may have suffered losses.

173. See Peter K. Yu, *From Pirates to Partners (Episode II): Protecting Intellectual Property in Post-WTO China*, 55 AM. U. L. REV. 901, 941 fig. 2 (2006).

174. See William J. Davey, *The WTO Dispute Settlement System: The First Ten Years*, 8 J. INT'L ECON. L. 17, 24 (2005) (noting that “the US and the EC no longer were as dominant as complainants in the system” and that “developing country use of the system increased dramatically” in the second half of the first decade of operation of the WTO dispute settlement process); see also David Evans & Gregory C. Shaffer, *Introduction to DISPUTE SETTLEMENT AT THE WTO: THE DEVELOPING COUNTRY EXPERIENCE* 1, 2 (Gregory C. Shaffer & Ricardo

remember that *China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights* is only the second TRIPS-related dispute involving a developing country that focuses primarily on the TRIPS Agreement and results in the release of a WTO panel report.<sup>175</sup> In the first dispute, the United States and later the European Communities successfully challenged, through parallel proceedings, India's failure to establish a mailbox system in its patent law pursuant to Article 70.8 of the TRIPS Agreement.<sup>176</sup> The result was a clear-cut victory for the United States and the European Communities.

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

Most recently, India and Brazil filed complaints against the European Union and the Netherlands over the repeated seizure of in-transit generic drugs.<sup>177</sup> Although it remains to be seen whether either

---

Meléndez-Ortiz eds., 2010) (observing that “no African country has ever initiated a [WTO] dispute” and that “only one Least Developed Country . . . initiated a dispute, and that dispute did not progress beyond the consultation phase (Bangladesh)”).

175. The U.S.-China dispute is actually the third one involving the TRIPS Agreement. Articles 3, 20 and 65 were implicated in *Indonesia—Certain Measures Affecting the Automobile Industry*. See Panel Report, *Indonesia—Certain Measures Affecting the Automobile Industry* pt. XI, WT/DS54/R, WT/DS55/R, WT/DS59/R, WT/DS64/R (July 2, 1998). That dispute, however, did not focus primarily on the TRIPS Agreement. Rather, it also covered GATT, the Agreement on Trade-Related Investment Measures, and the Agreement on Subsidies and Countervailing Measures. Out of all the complainants, only the United States claimed that Indonesia had violated the TRIPS Agreement. See Request for Consultations by the United States, *Indonesia—Certain Measures Affecting the Automobile Industry*, WT/DS59/1 (Oct. 15, 1996).

176. See Panel Report, *India—Patent Protection for Pharmaceutical and Agricultural Chemical Products*, WT/DS50/R (Sept. 5, 1997); Panel Report, *India—Patent Protection for Pharmaceutical and Agricultural Chemical Products*, WT/DS79/R (Aug. 24, 1998).

177. See Request for Consultations by India, *European Union and a Member State—Seizure of Generic Drugs in Transit*, WT/DS408/1 (May 19, 2010) [hereinafter Request for Consultations by India]; see Request for Consultations by

of these two countries will become the first developing countries to have a complaint resulting in the establishment of a WTO panel, the European Union's recent agreement with India<sup>178</sup> to amend its regulation on customs border measures<sup>179</sup> already suggests the growing ability of less developed countries to take advantage of the WTO dispute settlement process. Moreover, even if India ultimately settles with the European Union, the dispute between the Brazil and the European Union could still remain.

### III. DISAPPOINTMENTS

Notwithstanding the many important points scored by less developed countries in the panel's interpretation of the TRIPS Agreement, the panel report provides these countries with some disappointments. For illustration purposes, this Part focuses on the interpretation of four TRIPS provisions that are of particular importance to less developed countries: (1) Article 1.1; (2) Articles 7 and 8; and (3) Article 41.5. All of these provisions memorialize the hard-fought bargains less developed countries have won through the TRIPS negotiations.<sup>180</sup> This Part begins by discussing the panel report's biggest disappointment: the lack of discussion of Articles 7 and 8 of the TRIPS Agreement. It then examines the WTO panel's treatment of Articles 1.1 and 41.5.

#### A. ARTICLES 7 AND 8

The biggest disappointment in the panel report concerns its failure to discuss Articles 7 and 8 of the TRIPS Agreement. Article 7, which

---

Brazil, *European Union and a Member State—Seizure of Generic Drugs in Transit*, WT/DS409/1 (May 19, 2010) [hereinafter Request for Consultations by Brazil].

178. See *India-EU Generic Drug Row 'Resolved' at Brussels Summit*, BBC NEWS (Dec. 10, 2010), <http://www.bbc.co.uk/news/world-europe-11971568>.

179. See Council Regulation 1383/2003, Concerning Customs Actions Against Goods Suspected of Infringing Certain Intellectual Property Rights, 2003 O.J. (L 196) 7 (EC).

180. See Gervais, *supra* note 120, at 30 (“The only true measures they obtained (in addition to articles 7 and 8) were transitional periods to implement the Agreement.”); Peter K. Yu, *The Objectives and Principles of the TRIPS Agreement*, 46 HOUS. L. REV. 979, 1023 (2009) (stating that articles 7 and 8 are “the very few provisions” taken from the B text advanced by less developed countries).



delineates the objectives of the TRIPS Agreement, provides:

The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.<sup>181</sup>

Article 8, which sets forth the normative principles, provides:

1. Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this Agreement.
2. Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.<sup>182</sup>

Although some commentators have considered Article 7 as “mere hortatory”<sup>183</sup> and highlighted the limitations of Article 8—especially its TRIPS-consistency test<sup>184</sup>—these provisions are paramount to the

---

181. TRIPS Agreement art. 7.

182. *Id.* art. 8.

183. See CORREA, *supra* note 114, at 93 (“Some observers have read ‘should’ to mean that Article 7 is a mere hortatory [sic] provision, the interpretative value of which is equivalent to that of any preambular provision.”); JACQUES J. GORLIN, AN ANALYSIS OF THE PHARMACEUTICAL-RELATED PROVISIONS OF THE WTO TRIPS (INTELLECTUAL PROPERTY) AGREEMENT 16 (1999) (stating that “according to United States and EC negotiators, the language of Article 7 is hortatory and does not have any operational significance” and that Article 8 “was viewed by developed country negotiators throughout most of the negotiations as being non-operational and hortatory” (citing interviews with Mike Kirk and Peter Carl)); Margaret Chon, *Intellectual Property and the Development Divide*, 27 CARDOZO L. REV. 2821, 2843 (2006) (“The language referencing development in TRIPS is not mandatory, but rather hortatory . . .”).

184. As Daniel Gervais noted:

Both [Paragraphs of Article 8] are limited by the use of the phrase “consistent with the provisions of this Agreement” . . . Given the phrase added by negotiators, it would be difficult to justify an exception not foreseen under the Agreement, unless it is an exception to a right not protected under other provisions of the TRIPS Agreement or those of other international instruments incorporated in TRIPS.

GERVAIS, *supra* note 111, at 121–22. See generally Yu, *supra* note 180, at 1008–18 (discussing Article 8 of the TRIPS Agreement).

correct interpretation of the Agreement. Article 31.1 of the Vienna Convention states specifically that “[a] treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty . . . *in the light of its object and purpose.*”<sup>185</sup> Because Articles 7 and 8 were included in the text of the TRIPS Agreement, they should be given greater weight than the preambular provisions discussed in Part II.B. Notably, the Doha Ministerial Declaration has singled out these two provisions for their special importance.<sup>186</sup> It stated explicitly that the work of the TRIPS Council “shall be guided by the objectives and principles set out in articles 7 and 8 of the TRIPS Agreement and shall take fully into account the development dimension.”<sup>187</sup>

Since the entering into effect of the TRIPS Agreement, commentators have noted the importance of Articles 7 and 8 of the TRIPS Agreement and how these development-friendly safeguard provisions can be interpreted to strengthen the position of less developed countries. For example, Jerome Reichman observed:

[Developing] countries could attempt to trigger the safeguards implicit in Articles 7 and 8 in one of two ways. The least destructive approach would be to convince the Council for TRIPS itself to recommend narrowly described waivers to meet specified circumstances for a limited period of time. This approach would strengthen the mediatory powers of the Council for TRIPS and help to offset the problems arising from the inability of that body to quash or stay requests for consultations and dispute-settlement panels launched by trigger-happy governments.

Alternatively, developing country defendants responding to complaints of nullification and impairment under Article 64 might invoke the application of Articles 7 and 8(1) to meet unforeseen conditions of hardship. This defense, if properly grounded and supported by factual evidence, could persuade the Appellate Body either to admit the existence of a tacit doctrine of frustration built into the aforementioned articles or to buttress those articles by reaching out to the general doctrine of frustration recognized in the Vienna Convention on the Law of Treaties. Either way, overly aggressive complainants could wind up with what would amount

---

185. Vienna Convention, *supra* note 115, art. 31.1 (emphasis added).

186. See GERVAIS, *supra* note 111, at 211 (noting that Articles 7 and 8 “were singled out as having a special importance in para. 19 of the Doha Ministerial Declaration”).

187. Doha Declaration, *supra* note 95, ¶ 19.

to a judicially imposed waiver.<sup>188</sup>

In the copyright context, Ruth Okediji described how Articles 7 and 8 can be used to justify the validity of the fair use privilege under the TRIPS Agreement.<sup>189</sup> Srividhya Ragavan also explored the use of the provisions to determine whether a member state has provided an effective *sui generis* system to protect plant varieties.<sup>190</sup>

In a recent article, I further discussed the five different ways of using Articles 7 and 8 to facilitate a more flexible interpretation and implementation of the TRIPS Agreement:

(1) as a guiding light for interpretation and implementation; (2) as a shield against aggressive demands for increased intellectual property protection; (3) as a sword to challenge provisions that overprotect intellectual property rights or tolerate their abuse; (4) as a bridge to connect the TRIPS regime with other intellectual property or related international regimes; and (5) as a seed for the development of new international intellectual property norms.<sup>191</sup>

Although WTO panel reports have applied Articles 7 and 8 on occasion, their application has remained limited, and the two provisions deserve greater attention from both the DSB and members participating in the WTO dispute settlement process. After all, these two provisions can influence the development of the international intellectual property regime in many different ways:

Legally, the two provisions play important roles in the interpretation and implementation of the TRIPS Agreement. Economically, they facilitate innovation, technology transfer, and knowledge production while at the same time promoting social and economic welfare and development goals. Politically, they provide the much-needed balance to make the Agreement a legitimate bargain between developed and less-developed

---

188. J.H. Reichman, *The TRIPS Agreement Comes of Age: Conflict or Cooperation with the Developing Countries*, 32 CASE W. RES. J. INT'L L. 441, 461–62 (2000).

189. See Okediji, *supra* note 107, at 167–68. *But see* GERVAIS, *supra* note 111, at 207 (stating that “it is unclear whether art.7 could be used to ‘stretch’ art.13 (or other ‘exceptions’ articles) as much as would be necessary to cover certain forms of fair use, including reverse engineering (decompilation) and parody”).

190. See Srividhya Ragavan & Jamie Mayer O’Shields, *Has India Addressed Its Farmers’ Woes? A Story of Plant Protection Issues*, 20 GEO. INT’L ENVTL. L. REV. 97, 101 (2007).

191. Yu, *supra* note 180, at 982.

---

---

countries. Structurally, the two provisions bridge the gap between the TRIPS regime and other international regimes. Globally, they have sowed the seeds for the development of new international norms both within and without the TRIPS regime.<sup>192</sup>

Notwithstanding the importance of Articles 7 and 8 of the TRIPS Agreement and the Vienna Convention's explicit stipulation that a treaty be interpreted in good faith "in the light of its object and purpose,"<sup>193</sup> the WTO panel in the U.S.-China dispute did not mention Article 7 or 8 even once. Nor did it mention anything about the objectives or the principles of the TRIPS Agreement.

The panel's approach contrasts significantly with that of *Canada—Patent Protection of Pharmaceutical Products*.<sup>194</sup> In that dispute, the European Communities challenged the regulatory review and stockpiling exceptions in Canadian patent law as violative of the TRIPS Agreement. In response, Canada drew attention to Articles 7 and 8 of the TRIPS Agreement and contended that these provisions "call for a liberal interpretation of the three conditions stated in Article 30 of the Agreement, so that governments would have the necessary flexibility to adjust patent rights to maintain the desired balance with other important national policies."<sup>195</sup> As the WTO panel recounted:

In the view of Canada, [the clause "in a manner conducive to social and economic welfare, and to a balance of rights and obligations" in] Article 7 . . . declares that one of the key goals of the TRIPS Agreement was a balance between the intellectual property rights created by the Agreement and other important socio-economic policies of WTO Member governments. Article 8 elaborates the socio-economic policies in question, with particular attention to health and nutritional policies.<sup>196</sup>

Although the European Communities "did not dispute the stated goal of achieving a balance within the intellectual property rights system between important national policies,"<sup>197</sup> it took a very

---

192. *Id.* at 1046.

193. Vienna Convention, *supra* note 115, art. 31.1.

194. Panel Report, *Canada—Patent Protection of Pharmaceutical Products*, WT/DS114/R (Mar. 17, 2000).

195. *Id.* ¶ 7.24.

196. *Id.*

197. *Id.* ¶ 7.25.

different view of Articles 7 and 8. As the Panel continued:

In the view of the EC, Articles 7 and 8 are statements that describe the balancing of goals that had already taken place in negotiating the final texts of the TRIPS Agreement. According to the EC, to view Article 30 as an authorization for governments to “renegotiate” the overall balance of the Agreement would involve a double counting of such socio-economic policies. In particular, the EC pointed to the last phrase of Article 8.1 requiring that government measures to protect important socio-economic policies be consistent with the obligations of the TRIPS Agreement. The EC also referred to the provisions of first consideration of the Preamble and Article 1.1 as demonstrating that the basic purpose of the TRIPS Agreement was to lay down minimum requirements for the protection and enforcement of intellectual property rights.<sup>198</sup>

In the end, the Panel found Canada’s position a little more convincing, and struck a compromise between the two positions by allowing for “certain adjustments” that stopped short of renegotiating the basic balance of the TRIPS Agreement. As the panel declared:

Article 30’s very existence amounts to a recognition that the definition of patent rights contained in Article 28 would need certain adjustments. On the other hand, the three limiting conditions attached to Article 30 testify strongly that the negotiators of the Agreement did not intend Article 30 to bring about what would be equivalent to a renegotiation of the basic balance of the Agreement. Obviously, the exact scope of Article 30’s authority will depend on the specific meaning given to its limiting conditions. The words of those conditions must be examined with particular care on this point. Both the goals and the limitations stated in Articles 7 and 8.1 must obviously be borne in mind when doing so as well as those of other provisions of the TRIPS Agreement which indicate its object and purposes.<sup>199</sup>

Although the panel underscored the need to take account of the goals and the limitations stated in Articles 7 and 8.1, it “avoided elaboration of the content and implications of [these provisions], despite the specific reference that the parties made thereto in their submissions.”<sup>200</sup>

Since *Canada—Patent Protection of Pharmaceutical Products*, the DSB—whether through the Appellate Body or a WTO panel—

---

198. *Id.*

199. *Id.* ¶ 7.26.

200. CORREA, *supra* note 114, at 102.

has not provided any further interpretation and application of Articles 7 and 8 of the TRIPS Agreement.<sup>201</sup> In *Canada—Term of Patent Protection*, the Appellate Body explicitly acknowledged that the DSB had yet to determine “the applicability of Article 7 or Article 8 of the *TRIPS Agreement* in possible future cases with respect to measures to promote the policy objectives of the WTO Members that are set out in those Articles.”<sup>202</sup> In its view, the two provisions “still await appropriate interpretation.”<sup>203</sup>

In light of the provisions’ strong potential, yet limited development, the lack of discussion of Articles 7 and 8 in *China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights* is therefore rather disappointing. This panel report could have been an ideal dispute for the DSB to elaborate on the content, meaning, and implications of Articles 7 and 8—two provisions that are likely to provide important safeguards for less developed countries in the WTO framework. To a great extent, these countries missed a rare opportunity to establish further a pro-development interpretation of the TRIPS Agreement.

In all fairness to the WTO panel, none of the parties—be it China, the United States, or any of the twelve third parties—mentioned Articles 7 and 8 in its submissions. Given the design and structure of the WTO dispute settlement process, the WTO panel is unlikely to include in its report an argument not raised by any of the parties. The lost opportunity, therefore, can be somewhat attributed to both China and the developing country third parties. The positions taken by these countries contrast significantly with the position India recently took in *European Union and a Member State—Seizure of Generic Drugs in Transit*.<sup>204</sup> In its complaint, India reminded the DSB that “the provisions of the TRIPS Agreement referred to above must be interpreted and implemented in light of the objectives and principles

---

201. See Denis Borges Barbosa et al., *Slouching Towards Development in International Intellectual Property*, 2007 MICH. ST. L. REV. 71, 98 (“The balancing role of articles 7 and 8 has not received full support in the WTO case law. The WTO Appellate Body analysis in . . . *Canada—Patent Protection of Pharmaceutical Products* . . . is not definitive . . .”).

202. Appellate Body Report, *Canada—Term of Patent Protection*, ¶ 101, WT/DS170/AB/R (Sept. 18, 2000).

203. *Id.*

204. See Request for Consultations by India, *supra* note 177, at 3.

set forth in Articles 7 and 8 of the TRIPS Agreement.”<sup>205</sup>

In sum, the lack of discussion of Articles 7 and 8 in the present panel report provides an important lesson for all less developed countries. If these two provisions are to provide the key basis for a pro-development interpretation of the TRIPS Agreement, they need to be utilized to the fullest extent in the WTO submissions to help develop or clarify their normative content. By further developing Articles 7 and 8, countries can also “pave[] the way for the development of future exceptions and limitations, which can be used to restore the balance of the international intellectual property system.”<sup>206</sup> The greater use of the two provisions may even help “persuade the [DSB] to recognize and give effect to developmental priorities.”<sup>207</sup>

#### B. ARTICLE 1.1

The third sentence of Article 1.1 of the TRIPS Agreement provides: “Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.”<sup>208</sup> It echoes the Agreement’s preamble, which recognizes “the special needs of the least-developed country Members in respect of maximum flexibility in the domestic implementation of laws and regulations in order to enable them to create a sound and viable technological base.”<sup>209</sup>

Notably, the third sentence of Article 1.1 did not come from the developed countries’ original proposal. As Professor Gervais recounted:

[W]hile, in their draft texts, the EC and the United States had suggested a

---

205. *Id.* Notably, Brazil did not mention in its complaint Articles 7 and 8 of the TRIPS Agreement. *See* Request for Consultations by Brazil, *supra* note 177.

206. Yu, *supra* note 180, at 1007; accord J.H. Reichman, *From Free Riders to Fair Followers: Global Competition Under the TRIPS Agreement*, 29 N.Y.U. J. INT’L L. & POL. 11, 35 (1997) (stating that the safeguard provisions implicit in the objectives set out in Article 7 of the TRIPS Agreement and the public interest exceptions expressly recognized in Article 8 “may legitimize ad hoc exceptions and limitations required by overriding national development needs or for reasons of national health, welfare or security”).

207. UNCTAD-ICTSD, *supra* note 109, at 130.

208. TRIPS Agreement art. 1.1.

209. *Id.* pmb1.

provision according to which countries would “provide for the protection of intellectual property rights under their domestic law and practice in accordance with [the provision of TRIPS]”, the final text uses similar words to recognise the flexibility of countries implementing TRIPS vis-à-vis their legal systems and practices.<sup>210</sup>

Instead, the sentence reflects in part the fairly detailed intervention India made during the July 1989 meeting of the TRIPS Negotiating Group, as well as the expectation of many less developed countries.<sup>211</sup> As the GATT Secretariat recounted:

[The Indian delegate] emphasised that any discussion on the intellectual property system should keep in perspective that the essence of the system was its monopolistic and restrictive character. This had special implications for developing countries, because more than 99 per cent of the world’s stock of patents was owned by the nationals of the industrialised countries. Recognising the extraordinary rights granted by the system and their implications, international conventions on this subject incorporated, as a central philosophy, the freedom of member States to attune their intellectual property protection system to their own needs and conditions. *This freedom of host countries should be recognised as a fundamental principle and should guide all of the discussions in the Negotiating Group.*<sup>212</sup>

It is, therefore, no surprise that China described Article 1.1, along with Article 41.5, as a “key concession[] to the developing world.”<sup>213</sup>

In the present dispute, China invoked Article 1.1 in its response to the United States’ complaint over China’s use of criminal thresholds. As China claimed, this provision laid down “a specific ‘caveat’ that establishes boundaries on obligations, specifically in the realm of enforcement.”<sup>214</sup> The provision not only provided the much-needed

---

210. GERVAIS, *supra* note 111, at 164.

211. See Yu, *supra* note 180, at 987–89 (discussing India’s intervention).

212. Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, Note by the Secretariat: Meeting of Negotiating Group of 12–14 July 1989, ¶ 5, MTN.GNG/NG11/14 (Sept. 12, 1989) (emphasis added).

213. TRIPS Enforcement Panel Report, *supra* note 1, Annex B–4, ¶ 33 (“Articles 1.1 and 41.5 were key concessions to the developing world, which the United States and other developed third parties seek now to dismiss and disregard.”).

214. *Id.* ¶ 7.511.



context for interpreting the TRIPS Agreement,<sup>215</sup> but also indicated that “the balance of rights and obligations in TRIPS is . . . very much at stake in this dispute.”<sup>216</sup>

After careful review, however, the WTO panel rejected China’s position. As it declared, Article 1.1 “does not permit differences in domestic legal systems and practices to justify any derogation from the basic obligation to give effect to the provisions on enforcement.”<sup>217</sup> Instead of allowing a member state to lower the specified TRIPS standards, the provision merely grants to a WTO member “freedom to determine the appropriate method of implementation of the provisions to which they are required to give effect.”<sup>218</sup>

Although the panel’s interpretation of Article 1.1 was disappointing for many less developed countries, such interpretation was consistent with that found in the reports of the Appellate Body or other WTO panels. In all of these reports, no respondent has ever succeeded in using the third sentence of Article 1.1 to defend its measures against non-compliance with the TRIPS Agreement. In *India—Patent Protection for Pharmaceutical and Agricultural Chemical Products*, for example, India was found to have violated Articles 70.8 and 70.9 of the TRIPS Agreement despite mounting a defense based in part on Article 1.1.<sup>219</sup> Although the Appellate Body was reluctant to “second guess national governments and decide what is appropriate within a particular legal ‘system and practice,’”<sup>220</sup> it refused to allow India to determine by itself whether the country’s implementation was consistent with the WTO. As the Appellate Body explained:

---

215. *See id.*; *see also id.* Annex B-2, ¶ 15 (“During the Uruguay Round negotiations, developing countries objected strenuously to new enforcement obligations that would prescribe rigid standards and would ignore principles of sovereignty. Developing countries prevailed, over opposition from the United States and others, on the inclusion of both Article 1.1 and Article 41.5.”).

216. *Id.* Annex B-2, ¶ 2.

217. *Id.* ¶ 7.513.

218. *Id.*

219. Panel Report, *India—Patent Protection for Pharmaceutical and Agricultural Chemical Products*, WT/DS50/R (Sept. 5, 1997); Panel Report, *India—Patent Protection for Pharmaceutical and Agricultural Chemical Products*, WT/DS79/R (Aug. 24, 1998).

220. CORREA, *supra* note 114, at 28.

[T]he Panel was simply performing its task in determining whether India's "administrative instructions" for receiving mailbox applications were in conformity with India's obligations under Article 70.8(a) of the TRIPS Agreement. It is clear that an examination of the relevant aspects of Indian municipal law and, in particular, the relevant provisions of the Patents Act as they relate to the "administrative instructions", is essential to determining whether India has complied with its obligations under Article 70.8(a). There was simply no way for the Panel to make this determination without engaging in an examination of Indian law. But . . . the Panel was not interpreting Indian law "as such"; rather, the Panel was examining Indian law solely for the purpose of determining whether India had met its obligations under the TRIPS Agreement. To say that the Panel should have done otherwise would be to say that only India can assess whether Indian law is consistent with India's obligations under the WTO Agreement. This, clearly, cannot be so.<sup>221</sup>

Thus, even with the safeguard created by the third sentence of Article 1.1, the Appellate Body made it clear that "[t]he freedom preserved by [the provision] cannot be seen . . . as a blank cheque for Members to decide by themselves whether they have complied or not with their obligations."<sup>222</sup> Instead, the legislation of each member state is subject to review by the DSB.

Likewise, in *United States—Section 110(5) of the U.S. Copyright Act*, where the United States asserted Article 1.1 as part of its defense, the panel declared that "while the WTO Members are free to choose the method of implementation, the minimum standards of protection are the same for all of them."<sup>223</sup> That dispute concerned the European Communities' challenge of Section 110(5) of the U.S. Copyright Act, which enables some restaurants and small establishments to play copyrighted music without compensating copyright holders.<sup>224</sup> Although the United States defended that the

---

221. Appellate Body Report, *India—Patent Protection for Pharmaceutical and Agricultural Chemical Products*, ¶ 66, WT/DS50/AB/R (Dec. 19, 1997).

222. CORREA, *supra* note 114, at 28; accord UNCTAD-ICTSD, *supra* note 109, at 28 ("[The] freedom to determine appropriate method is not the equivalent of a right to self-certify compliance with TRIPS obligations. Compliance requires demonstration of a legally sound basis of implementation.").

223. Panel Report, *United States—Section 110(5) of the U.S. Copyright Act*, ¶ 6.189, WT/DS160/R (June 15, 2000) [hereinafter Section 110(5) Panel Report].

224. For discussions of the dispute, see generally Graeme B. Dinwoodie, *The Development and Incorporation of International Norms in the Formation of Copyright Law*, 62 OHIO ST. L.J. 733 (2001); Laurence R. Helfer, *World Music on a U.S. Stage: A Berne/TRIPS and Economic Analysis of the Fairness in Music*

exemptions were valid under the three-step test as laid out in Article 13 of the TRIPS Agreement, the panel found the business exemption within the provision inconsistent with Articles 11*bis*(1)(iii) and 11(1)(ii) of the Berne Convention as incorporated into the TRIPS Agreement.<sup>225</sup>

In the end, an arbitration proceeding determined that the United States owed the complainant an annual compensation of €1,219,900.<sup>226</sup> While the United States paid the European Union \$3.3 million more than a year later,<sup>227</sup> it disappointingly had neither updated its statute to ensure compliance with the TRIPS Agreement nor made a second payment. To date, this dispute remains one of the two cases involving the TRIPS Agreement where the respondent remains in noncompliance with the panel report.<sup>228</sup>

Given the dismal track record in using the third sentence of Article 1.1, it is fair to assume that its future use is unlikely to provide any effective defense against TRIPS noncompliance, even though WTO members may still be tempted to include such a sentence in their oral statements or written submissions. To a great extent, the WTO members' duty to interpret international agreements in good faith (*pacta sunt servanda*) has largely constrained the interpretation of the third sentence of Article 1.1.<sup>229</sup> The sentence's limited effect is similar to that of the first sentence of Article 1.1, which requires WTO members to "give effect to the provisions of this

---

*Licensing Act*, 80 B.U. L. REV. 93 (2000).

225. See Section 110(5) Panel Report, *supra* note 223, ¶ 7.1.

226. See Award of the Arbitrators, *United States—Section 110(5) of the US Copyright Act: Recourse to Arbitration under Article 25 of the DSU*, ¶ 5.1, WT/DS160/ARB25/1 (Nov. 9, 2001).

227. See Yu, *supra* note 173, at 940 n.196.

228. See Pauwelyn, *supra* note 39, at 417. The other dispute involving a noncompliant respondent is also one where the United States served as the respondent. *United States—Section 211 Omnibus Appropriations Act of 1998* involved the prohibition of registration or renewal of trademarks previously abandoned by trademark holders whose business and assets have been confiscated under Cuban law. See Section 211 Panel Report, *supra* note 6.

229. See UNCTAD-ICTSD, *supra* note 109, at 26 ("There are limits to TRIPS Agreement flexibility in the sense that its rules cannot be stretched beyond reasonable good faith interpretation."); see also Vienna Convention, *supra* note 115, art. 26 ("Every treaty in force is binding upon the parties to it and must be performed by them in good faith."); RESTATEMENT (THIRD) OF FOREIGN RELATIONS LAW § 321 (1987) ("[E]very international agreement in force is binding upon the parties to it and must be performed by them in good faith.").

Agreement.”<sup>230</sup> Apart from the fact that the two sentences cancel each other out, neither provision adds anything substantive to the interpretation of the TRIPS Agreement—other than what public international law already provides.

Disturbingly, the U.S. Trade Representative (“USTR”) recently suggested that similar language in ACTA might provide the country with an escape route to avoid conflicts between ACTA and domestic U.S. law.<sup>231</sup> The USTR’s position was troubling. By directly contradicting in the ACTA context the position it took in *China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, the position signaled disturbing inconsistency, if not outright hypocrisy.

Even worse, if other countries shared the USTR’s position with respect to ACTA and applied it to the TRIPS Agreement, one has to wonder whether the TRIPS Agreement will still offer any meaningful protection to intellectual property rights holders. In a way, Article 1.1 of the TRIPS Agreement will become a major loophole that justifies virtually all forms of noncompliance with the TRIPS Agreement.

Thus, by making a creative interpretation of the TRIPS language used in ACTA to defray criticisms of the unnecessarily secretive negotiations and the lack of public consultation, the USTR unintentionally harmed its own position vis-à-vis other WTO members. This impact, to some extent, is similar to the unanticipated damage caused by the United States’ short-sighted exploration of compulsory licensing as an option to lower the price of ciprofloxacin following anthrax attacks in 2001.<sup>232</sup> Such exploration not only

---

230. TRIPS Agreement art. 1.

231. See James Love, *USTR’s Implausible Claim that ACTA Article 1.2 Is an All Purpose Loophole, and the Ramifications if True*, KNOWLEDGE ECOLOGY INT’L (Oct. 22, 2010, 02:23PM), <http://keionline.org/node/990>; Mike Masnick, *US Basically Says It’ll Ignore Anything in ACTA that It Doesn’t Like . . . So How About Everyone Else?*, TECHDIRT (Oct. 25, 2010, 06:34AM), <http://www.techdirt.com/articles/20101025/01382311559/us-basically-says-it-ll-ignore-anything-in-acta-that-it-doesn-t-like-so-how-about-everyone-else.shtml>.

232. See Debora Halbert, *Moralized Discourses: South Africa’s Intellectual Property Fight for Access to AIDS Drugs*, 1 SEATTLE J. SOC. JUST. 257, 280 (2002) (“The U.S. lost significant international legitimacy when the overwhelming hypocrisy of its own efforts regarding anthrax were juxtaposed against the efforts of developing countries to secure cheap access to AIDS drugs.”); Susan K. Sell,

suggested a double standard, but has also greatly undermined the country's ability to convince its trading partners to refrain from using compulsory licensing to meet public health needs.

### C. ARTICLE 41.5

Article 41.5 of the TRIPS Agreement states that “[n]othing in [Part III of the Agreement] creates any obligation with respect to the distribution of resources as between enforcement of intellectual property rights and the enforcement of law in general.”<sup>233</sup> This provision states explicitly that a WTO member is not required to devote more resources to intellectual property enforcement than to other areas of law enforcement. It further invites the DSB to evaluate whether the resource demands for intellectual property enforcement are disproportional to demands in other areas.<sup>234</sup>

The provision is particularly important to less developed countries. During the TRIPS negotiations, these countries were deeply concerned about the need to reallocate a considerable amount of resources to set up specialized intellectual property courts or strengthen intellectual property enforcement.<sup>235</sup> These concerns were

---

*TRIPS and the Access to Medicines Campaign*, 20 WIS. INT'L L.J. 481, 515–16 (2002) (noting that the series of events surrounding the United States' response to high drug prices during the anthrax attacks “caught the attention of the access campaign and developing country negotiators, and was on everybody's minds at Doha”); Ellen 't Hoen, *TRIPS, Pharmaceutical Patents, and Access to Essential Medicines: A Long Way from Seattle to Doha*, 3 CHI. J. INT'L L. 27, 43 (2002) (“The anthrax scare and the threatened shortage of Cipro forced all WTO Members to ask how much of a prisoner they want to be of their own patent systems.”); José Marcos Nogueira Viana, *Intellectual Property Rights, the World Trade Organization and Public Health: The Brazilian Perspective*, 17 CONN. J. INT'L L. 311, 313 (2002) (“U.S. and Canadian approaches to the anthrax scare is precisely what the Brazilian government has been doing over the past two years in response to HIV/AIDS.”); Peter K. Yu, *The International Enclosure Movement*, 82 IND. L.J. 827, 874 n.247 (2007) (discussing how the United States' proposal can be distinguished from the request for compulsory licensing by less developed countries).

233. TRIPS Agreement art. 41.5.

234. See Jayashree Watal, *US–China Intellectual Property Dispute—A Comment on the Interpretation of the TRIPS Enforcement Provisions*, 13 J. WORLD INTELL. PROP. 605, 610–11 (2010) (noting that countries “could use the last sentence in article 41.5 as a defence against the disproportionate deployment of resources needed to implement these standards or, as was the case in this dispute, to pursue criminal prosecutions in IP infringement cases”).

235. See GERVAIS, *supra* note 111, at 440 (“The two principal stumbling blocks

so severe that less developed countries specifically demanded the inclusion of Article 41.5 in the TRIPS Agreement. As Professor Correa recounted:

The last paragraph of Article 41 was not suggested in the original U.S. and EC proposals. It was included in order to address the concerns of developing countries, based on a proposal by the Indian delegation. This was in fact one of the few provisions in Part III where developing countries' views made a difference.<sup>236</sup>

As far as the present dispute is concerned, Article 41.5 is of additional significance to China and thereby provides an instructive lesson for other less developed countries. In retrospect, the existence of the provision partly explains the United States' reluctance to file a WTO complaint against China over a lack of enforcement of intellectual property rights based on a general impression, as compared to noncompliance based on the violation of specific TRIPS provisions.<sup>237</sup> After all, if China is able to show that its resource demands in the area of intellectual property enforcement have far exceeded those in other areas of law enforcement, China is likely to prevail.

In the end, the United States filed an "as such" complaint,<sup>238</sup> which

---

during the TRIPS discussions were the ironing out of differences amongst legal systems and the need to take account of many developing countries' availability of resources.").

236. UNCTAD-ICTSD, *supra* note 109, at 585.

237. See Yu, *supra* note 173, at 935.

238. As the Appellate Body declared in *United States—Sunset Review of Anti-Dumping Duties on Corrosion-Resistant Carbon Steel Flat Products from Japan*:

When a measure is challenged 'as such', the starting point for an analysis must be the measure on its face. If the meaning and content of the measure are clear on its face, then the consistency of the measure as such can be assessed on that basis alone. If, however, the meaning or content of the measure is not evident on its face, further examination is required.

Appellate Body Report, *United States—Sunset Review of Anti-Dumping Duties on Corrosion-Resistant Carbon Steel Flat Products from Japan*, WT/DS244/AB/R, ¶ 168 (Dec. 15, 2003). *But see* Gervais, *supra* note 31, at 549 (noting that the WTO panel's analysis may have "blurred both the traditional distinction between 'as such' and 'as applied' claims and the line separating TRIPS violations from non-violations"); Susy Frankel, *Challenging TRIPS-Plus Agreements: The Potential Utility of Non-Violation Disputes*, 12 J. INT'L ECON. L. 1023, 1059 (2009) ("Given the lack of detail in the enforcement provisions the US argument was really more of a non-violation complaint. The essence of what the USA was really complaining about was that a benefit it expected from the TRIPS Agreement was better levels

took away China's potential defense under Article 41.5. Notwithstanding the United States' preemptory tactics, China still advanced arguments based on Article 41.5 in response to the U.S. charge that its criminal thresholds failed to comply with the TRIPS Agreement. As it contended, the provision, along with Article 1.1, provided the much-needed context for interpreting the TRIPS Agreement.<sup>239</sup> Although the panel ultimately rejected China's arguments based on either provision, it acknowledged that "Article 41.5 is an important provision in the overall balance of rights and obligations in Part III of the TRIPS Agreement."<sup>240</sup> It also treated Article 41.5 somewhat differently from Article 1.1. Instead of declaring that Article 41.5 does not permit the use of resource constraints "to justify any derogation from the basic obligation to give effect to the provisions on enforcement"—the wording used in Article 1.1<sup>241</sup>—the panel merely noted China's failure to substantiate how the lack of thresholds would have overburdened its criminal law system.<sup>242</sup> Implicitly, the panel recognized the possibility of using resource constraints to justify derogations from TRIPS enforcement obligations.

In a way, the present panel report suggested that a future WTO panel could consider the shift of burdens, responsibilities, and risks of enforcement from private rights holders to national governments, especially those in the less developed world. In the report's closing paragraph, the panel also noted clearly that its task was not "to review the desirability of strict IPR enforcement."<sup>243</sup> After all, the second sentence of Article 1.1 of the TRIPS Agreement gives member states the power to "implement in their law more extensive protection than is required by this Agreement, *provided that such protection does not contravene the provisions of this Agreement.*"<sup>244</sup>

---

of enforcement.").

239. See TRIPS Enforcement Panel Report, *supra* note 1, ¶ 7.481.

240. *Id.* ¶ 7.594.

241. *Cf. id.* ¶ 7.513.

242. See *id.* ¶ 7.598; see also GERVAIS, *supra* note 111, at 442 ("[T]he restriction [in Article 41.5] would not apply where no demonstrable increase in resources is needed to implement an obligation contained in the Agreement. Nor does it allow the maintenance of any system or tradition, other than when availability of resources is at play.").

243. TRIPS Enforcement Panel Report, *supra* note 1, ¶ 8.5.

244. TRIPS Agreement art. 1.1 (emphasis added).

Thus, one could argue that, through this carefully worded report, the panel has sent some subtle warning signals to developed countries, which, despite the compromise made at the TRIPS negotiations, continue to aggressively push for TRIPS-plus enforcement norms to the detriment of less developed countries.

## CONCLUSION

In *China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, the WTO panel, for the first time, focused its report primarily on the interpretation and implementation of the TRIPS enforcement provisions. The report not only provides certainty and clarity to a WTO member's TRIPS enforcement obligations, but also enables the United States to receive redress of some of its complaints over inadequate intellectual property protection and enforcement in China.

More importantly from the standpoint of less developed countries, the panel report enables them to score some important points in the interpretation of the TRIPS Agreement. For example, the report underscores the importance of having minimum standards and flexibilities in the TRIPS Agreement and the longstanding treatment of intellectual property rights as private rights. It also rejects the use of bilateral, plurilateral, or regional trade agreements to divine meaning in the TRIPS language. In addition, the report appreciates the divergent local market conditions in each WTO member while continuing the use of an evidence-based approach for resolving WTO disputes. In short, the report provides considerable hope and encouragement to less developed countries, which only recently are beginning to make more frequent use of the WTO dispute settlement process.

To be certain, the report includes some disappointments—most notably in its lack of discussion of Articles 7 and 8 of the TRIPS Agreement. Nonetheless, it leaves the door open for future efforts to elaborate on the content, meaning, and implications of these provisions. The panel's discussion of Article 41.5 also suggests its willingness to entertain greater challenges in the area so long as the respondent produces sufficient substantive and nonanecdotal evidence to show that the resource demands in the area of intellectual property enforcement have far exceeded those in other areas of law



enforcement.

Immediately after the release of the present panel report, policymakers, industry representatives, and commentators were quick to determine whether China or the United States has prevailed. Whether intended or not, however, less developed countries might have become the dispute's ultimate winner. As an African proverb says, when two elephants fight, the grass gets trampled. In this dispute, the grass not only has not been trampled, but it has become even greener than before.