

TRANSITIONAL REVIEW MECHANISM OF CHINA

Communication from the United States

By means of a communication from the delegation of the United States, dated 29 September 2005, the Secretariat has received the following contribution in the context of the transitional review mechanism under Section 18 of China's Protocol on Accession.

The United States first wishes to thank the delegation of the People's Republic of China for its responses in prior years to questions on China's intellectual property rights (IPR) regime. Despite the limited time that has sometimes been available, we have appreciated the opportunity to pose these questions and we have found the answers to be helpful in addressing our concerns and the concerns of our companies and right holders.

While we appreciate the efforts of the Chinese delegation to respond to all of these questions, we also welcome references to websites or other available published materials that may contain additional relevant information where it would assist in responding to these questions. Moreover, the United States appreciates the information provided by China in other contexts, including China's 2005 White Paper on IPR. To build upon the information already provided, and to further enhance our overall understanding of China's IPR regime, the United States will soon seek from China detailed information pursuant to TRIPS Article 63.3 on specific cases of IPR enforcement that China had previously identified for the years 2001 through 2004, as well as any relevant more recent cases. Therefore, the United States has not posed questions on specific cases of IPR enforcement in this TRM, but will instead request such information through the Article 63.3 inquiry.

The United States acknowledges that many Chinese ministries have become increasingly transparent in their rule-making process, by making drafts of proposed regulations and rules available, for instance, on websites. Recent efforts to provide drafts have included proposed rules of the Standardization Administration of China on Standardization and IPR, draft rules of the Ministry of Commerce and other agencies on enforcement at trade fairs and on referrals from administrative enforcement to criminal enforcement, the National Copyright Administration's proposed draft of State Council regulations on protecting copyright over information networks and most recently, draft trademark examination guidelines from the China Trademark Office. We encourage such procedures to be adopted by all relevant agencies at the national level and especially at local levels, as it is sometimes difficult to even obtain copies of actually promulgated local laws and rules.

The United States also wishes to thank the Chinese delegation for the cooperation of the Chinese government on two cross-border IPR criminal cases, "Operation Spring" and more recently, "Operation Ocean Crossing," and looks forward to extending this cooperation with China to address transnational and multinational IPR crimes.

I. GENERAL ISSUES

1. China's Ministry of Culture (MOC) and State Administration of Radio, Film and Television (SARFT) entered into a Memorandum of Understanding (MOU) with the Motion Picture Association that we understand is intended to provide stricter policing of counterfeit films and aggressive prosecution of infringements. Under the MOU, MOC and SARFT will regularly instruct enforcement authorities nationwide that certain copies of films and audio-visual products still in censorship or import review or otherwise not yet authorized for theatrical distribution are deemed pirated and subject to enhanced enforcement. What are the results of this initiative to date? Are similar initiatives under consideration for other types of products, such as music or entertainment software? If so, what products? What is the anticipated timing for the rollout of those initiatives?

2. The United States is concerned that trademark infringement, patent infringement and trade secrets theft of automotive parts in China are growing at a rapid rate. The sale of knock-off auto parts is a particularly dangerous type of intellectual property rights infringement, as it presents serious safety implications. The United States is concerned that China is becoming one of the world's top producers and exporters of counterfeit and infringing automotive parts, pharmaceuticals, and other products affecting the health and safety of consumers. For example, US automotive companies have identified hot spots for these activities in the cities of Cixi, Wenzhou, Yuhuan and Changzhou, and the provinces of Zhejiang, Jiangsu, Guangdong, Shandong, Hunan, Shanghai and Hebei. What concrete steps is China taking to improve IPR protection and enforcement for this industry overall? What concrete steps are the national and local governments taking to improve IPR protection and enforcement for this industry in the above-identified provinces and municipalities?

3. What laws, rules, regulations, judicial interpretations, etc., relating to IPR are currently being studied and/or drafted by the National People's Congress, State Council, and State Council ministries, as well as the Supreme People's Court and Supreme People's Procuratorate? For example, is China currently considering a draft of revisions to the Patent Law? In addition, we understand that several new judicial interpretations that could apply to IPR cases are likely to be adopted or revised by the Supreme People's Court; can China please provide additional information on these activities?

4. Since Vice Premier Wu Yi's announcement of the State Council's IPR action plan in September 2004, there have been several national, local and ministerial efforts to improve IPR protection and enforcement. Please provide information (e.g., internet links) on how WTO Members can obtain local IPR "White Papers," action plans, etc., on intellectual property, such as those issued by Nanjing, Shenzhen and Sichuan. Please also explain how WTO Members can obtain any such local IPR documents as they are released or revised in the future.

5. During the past year, the United States has been actively involved in training US right holders to better understand China's IPR system, and has welcomed the support of the Chinese government in many of these training efforts. Nevertheless, we continue to hear complaints of the reluctance of local enforcement authorities to handle cases involving foreign right holders, and administrative procedures that impose additional requirements on foreigners (such as consularization/notarization) or procedures (such as those at trade fairs), that are not widely known to foreign right holders. Please explain what steps are being taken to remedy this situation.

6. China is currently negotiating a number of Free Trade Agreements, as well as bilateral agreements concerning IPR. Please describe the provisions regarding IPR protection and enforcement under discussion in connection with the negotiation of these arrangements.

7. In recent years, Chinese government officials have increasingly recognized the importance of trade associations and associations of right holders to the development of a dynamic intellectual property environment. Many foreign and Chinese observers for example, applaud the role of the Quality Brands Protection Committee in relation to enforcement of intellectual property, including geographical indications. However, the operations of foreign associations are restricted in China. Please explain what steps China is considering to accelerate the involvement of these associations in China's IPR environment, including encouraging the establishment of Chinese-foreign associations and expanding the scope of operations of foreign associations in China.

II. LEGISLATION

8. Pursuant to the terms of its WTO accession, China undertook extensive revisions to its legislative regime for all substantive IPR. However, certain general laws were not revised. These laws include: the General Principles of the Civil Law, the Criminal Code and the Law to Counter Unfair Competition. In addition, at least one set of regulations, regarding protection of copyright over information networks, was intended by the National People's Congress to be part of China's regulatory package shortly after WTO accession, but has not yet been enacted.

- (a) Please identify any plans to revise or enact these laws and regulations.
- (b) During last year's TRM, China noted that a new civil code is under consideration, but that some detailed articles in the draft "would need further rectification and modification." (*see* WTO IP/C/M/46, para. 14). What is the current status of this legislation? Does the current draft contain provisions relevant to IPR? When will China circulate a draft for public comment? Will the civil code replace or modify existing IPR legislation?

9. We understand that the Chinese government is currently drafting a "National IPR Strategy." Please explain the contents of this strategy, which ministry, agency and department is coordinating the drafting process, the various ministries involved and whether opportunities for public comment will be afforded on the strategy.

III. ENFORCEMENT

10. At last year's TRM, China explained that the Ministry of Public Security was considering the licensing of private investigative firms (*see* WTO IP/C/M/46, para. 60). We support the development of licensed, independent investigative firms to assist in civil, administrative, and criminal actions brought by right holders. Please report on the status of these efforts.

11. In order to have effective access to administrative, civil, and criminal remedies, federations and associations that assert IPR on behalf of right holders must be able to lawfully gather evidence relating to suspected infringements. Please explain whether and under what circumstances such federations and associations, particularly in the field of copyright, may lawfully gather evidence relating to suspected IPR infringements in China. May licensees, distributors and other agents of right holders lawfully gather evidence relating to suspected IPR infringements in China?

12. Please provide information (including the venue of the case and any penalties imposed) on any cases prosecuted under Article 16 of the judicial interpretation on criminal enforcement of IPR issued in December 2004 (JI), which interprets existing Chinese law as allowing those providing storage and import-export agency services to be held criminally liable for IPR infringement. In

addition, please explain whether others in the distribution chain, such as freight forwarders and distributors, can also be subject to criminal liability for dealing in infringing products.

13. Please provide information (including the venue of the case and any penalties imposed) on any cases prosecuted under Article 16 of the JI, which provides that landlords can be held liable in China for illegal activities undertaken by their lessees at the leased premises.

14. Administrative enforcement authorities in China transfer only a small percentage of IPR infringement cases for criminal enforcement. Some observers opine that this is due in part to cost-recovery limitations that discourage administrative authorities from referring cases to criminal authorities.

- (a) If an administrative authority refers a case for criminal enforcement, how does that administrative authority recover costs and expenses incurred, including investigatory expenses, storage costs, etc.?
- (b) How are costs and expenses incurred by the Public Security Bureau, Ministry of Public Security, and the Procuratorate in connection with criminal IPR enforcement cases funded?

15. At last year's TRM, the United States requested an explanation of the obligations of administrative agencies in China to provide written decisions with explanations for their enforcement decisions, as well as plans for publishing administrative decisions or making them available, including what types of administrative decisions will be published and where they will be made available or published. The delegate from China responded initially that "this question was not relevant to the IPR system and that [the] delegation was not obliged to answer it here" (*see* WTO IP/C/M/46, para. 65). After further discussion, however, China's delegation agreed to consult with the relevant authorities in Beijing and provide additional information in response to this question (*see* WTO IP/C/M/46, para. 91). The United States has not yet received this information, and therefore renews its request.

16. Many right holders have expressed concern for some time that penalties in China's administrative enforcement system are chronically non-deterrent (e.g., such penalties are often as minimal as a warning or seizure of the infringing product on hand), leading infringers to regard administrative penalties as little more than a cost of doing business and to continue infringing intellectual property rights even after multiple administrative enforcement actions. Does China have any plans to reform its IPR administrative enforcement system, such as by establishing and imposing minimum penalties for infringement, imposing criminal penalties for repeat offenders, or making other improvements to provide for deterrent penalties?

17. Chinese law and judicial interpretations appear to provide authority for courts to grant preliminary injunctions to stop infringements of trademarks and copyrights. However, many Chinese authorities acknowledge that many courts – even in major areas such as Beijing – have never used this authority, and we are aware of at least one instance of a court informing counsel for a US company informally that there was no point in requesting such injunctive relief, because such injunctions are not granted.

- (a) What, if anything, is the Chinese government doing to insure that this type of injunction is available in practice at minimal cost and without unreasonable delay?
- (b) Please describe what steps right holders should take to insure that a preliminary injunction is granted in appropriate.
- (c) Is there a right of appeal of the denial of a preliminary injunction while the case is pending on the merits before the court of first instance?

18. We understand that the General Administration of Customs is developing a method of cooperating with the Ministry of Public Security to refer criminal cases arising from Customs seizure of infringing products in international trade, and that this guidance may be promulgated as early as the end of 2005. What is the status of these efforts? Will there be an opportunity for public comment on any drafts?

19. We understand that the Ministry of Public Security is developing a mechanism to improve coordination for copyright enforcement, which currently involves several different divisions of the Ministry of Public Security – cybercrime, smuggling, social order and the economic crimes investigation division. What is the status of these efforts? Will there be an opportunity for public comment on any drafts?

20. Please describe any efforts by the Ministry of Public Security or by provincial Public Security Bureaus to establish standards for arrest and/or initiation of IPR criminal investigations.

21. China remains by far the largest source of infringing goods that are seized at the borders of the United States by US Customs authorities. What new steps (since last year's TRM), if any, are being taken to stop the exportation of counterfeit and pirated goods from China? Please identify any new regulations, rules or other provisions relating to the investigation, initiation, acceptance, and prosecution of criminal cases involving the export of infringing products. Please include those provisions relating to the referral of cases involving the export of infringing products from administrative to criminal authorities.

IV. COPYRIGHT

22. In July 2005, China announced that it would begin immediately a nationwide crackdown on Internet piracy. Please provide information describing how this crackdown has been or will be instituted, and report on the results of it to date.

23. At last year's TRM, China noted that the "temporary reproduction" issue was being studied by the Chinese government, and would be dealt with in the Measures for the Protection for the Right of Communication through Information Networks, which would be placed on the 2005 legislative agenda of the State Council (*see* WTO IP/C/M/46, para. 42). Please report on the status of these rules. How can WTO Members obtain a copy of the current draft? When will a copy be made available for public comment in accordance with paragraph 2(C) of China's Protocol of Accession?

24. TRIPS Article 61 requires that all willful acts of piracy on a commercial scale be subject to criminal liability using criminal procedures. As detailed in prior submissions and bilateral discussions, China's Criminal Code raises significant concerns about the availability of remedies to address commercial scale counterfeiting and piracy, particularly with respect to its requirements of "identical" trademarks; monetary "thresholds;" exclusion of commercial scale piratical activities undertaken without profit motive from criminal liability; and reliance on non-deterrent administrative penalties rather than transferring cases for criminal prosecution. The following questions pertain to efforts to address these concerns regarding China's Criminal Code.

- (a) We appreciate that China addressed some of these concerns through a judicial interpretation issued in December 2004 (addressed in Question 12 above), and in further clarifications announced in July 2005. Please describe any plans by the National People's Congress to amend the Criminal Code to address the remainder of these concerns and to criminalize commercial scale infringement of other exclusive rights protected under China's Copyright Law.

- (b) China's Criminal Code criminalizes only copyright piracy "for the purpose of making a profit," which results in inconsistent application to piracy that has a commercial-scale impact on the right holder depending on the "purposes" of the infringer. Because it is possible to cause substantial commercial harm without a profit motive, focus should be placed on the harm caused by the infringer's actions rather than the infringer's motive. China's criminal trade secret law already recognizes that harm to the right holder should be the key factor in determining whether criminal liability should apply. Is China considering revising the Criminal Code to criminalize all commercial scale infringement, including piracy that is not conducted "for the purpose of making a profit?"
- (c) Please describe how authorities calculate the value of counterfeit or pirated goods, including semi-finished goods, to determine if the value meets the criminal threshold.
- (d) Can trading companies involved in the manufacture, transport, exchange and/or sale of counterfeit or pirated goods be held criminally liable?

25. Article 23 of China's 2001 Copyright Law creates a compulsory licence for "portions of a published work" to be compiled into elementary, high school and "State Plan" textbooks. Please clarify whether this provision would permit the compilation of portions of published foreign works into textbooks. Has this provision ever been applied in cases involving (i) Chinese right holders; and (ii) foreign right holders? If so, please identify those cases.

26. TRIPS Article 10.2 provides that "Compilations of data or other material, whether in machine readable or other form, which by reason of the selection or arrangement of their contents constitute intellectual creations *shall be protected as such*. Such protection, which shall not extend to the data or material itself, shall be without prejudice to any copyright subsisting in the data or material itself" (emphasis added). Please describe the current status of China's implementation of TRIPS Article 10.2.

27. Right holders have complained that China's censorship standards and procedures for video and television broadcasting products are unclear. Please explain these standards and procedures. How can WTO Members obtain copies of these standards, procedures or other relevant guidelines? Please explain the inquiry process when a delay in approval occurs.

28. Please describe the content/censorship review process for entertainment software. What is the typical time required for completion of the review (i.e., from submission until issuance of approval)? Which agencies/departments are responsible for content review of online versions of entertainment software? For hard copy versions of entertainment software? What are the criteria used for review of each type of software, and how can WTO Members obtain copies of the measures embodying those criteria?

29. China's regulations regarding the audio-visual industry regulate the import and distribution of audio-visual products, but not the export of audio-visual products.

- (a) Please explain the application procedures and approval guidelines for obtaining a licence to engage in the import of audio-visual products. To date, how many applications for audio-visual import licences have been received, and how many licences have been issued?
- (b) Please explain the application procedures and approval guidelines for obtaining a licence to engage in the distribution of audio-visual products. To date, how many

applications for audio-visual distribution licences have been received, and how many licences have been issued?

- (c) Is a licence required to export audio-visual products from China and the consequences under Chinese laws for the unauthorized export of audio-visual products? For example, the 25 December, 2001 Rules on Regulating Audio-visual Products of the Ministry of Culture, cover the "publishing, manufacture, duplication, import, distribution, retail sales and rental" of audio-visual products, but fail to define the export of audio-visual products as a regulated act.

30. The United States appreciates the positive steps toward seeking improved enforcement against Internet-based copyright infringement in China, including national campaigns, new administrative regulations from the Ministry of Information Industry and National Copyright Administration, actions undertaken by the Ministry of Culture, and an increasingly active civil docket. We also note that some Internet service providers (ISPs) have begun to develop policies to ensure more robust protection of copyright. We appreciate the efforts of China's ISP's and Internet content providers to respond to notifications from right holders that content that they host is infringing. We hope that additional legislation and practices will further improve the protection of copyright over the Internet. What steps are universities and other educational institutions undertaking to institute policies that protect copyright over their networks, including policies prohibiting student use of university bandwidth to infringe copyrighted works, or to hack into databases, and to use legal software?

31. In July 2005, China announced that it would ensure the use of only legal software in all central, provincial and municipal government offices by the end of 2005. Please explain the status and results of these efforts to date.

V. TRADEMARKS AND GEOGRAPHICAL INDICATIONS

32. The United States continues to hear reports of unauthorized third-parties who apply for trademarks in English or Chinese, for a transliteration or translation of an English or Chinese trademark, or for a trademark that is confusingly similar to a preexisting trademark in order to preclude the registration of the same or confusingly similar trademark by the legitimate owner, or to hinder the legitimate owner's enforcement efforts. What procedures are in place to protect legitimate owners against these unauthorized third-party applications? Can such procedures be expedited in order to minimize the harm caused to legitimate right holders by these activities? Do Chinese authorities ever view the registration by a third party of a trademark that is confusingly similar to a preexisting trademark as a basis to deny enforcement of the preexisting trademark?

33. How many opposition and cancellation proceedings are currently pending before the China Trademark Office (CTO)? For each type of proceeding, please provide the typical length of time from the filing of the proceeding to the issuance of a decision.

34. Please identify all trademarks that have been recognized to date as well-known marks in (a) administrative proceedings at the CTO; (b) the Trademark Review and Adjudication Board (TRAB); (c) any other administrative agency; and (d) the courts.

35. The United States and right holders remain extremely concerned about the presence of open and notorious markets of counterfeit and pirated goods, which in many cases are located adjacent to Chinese government offices, diplomatic compounds, and tourist destinations. The United States understands that the Beijing and Shanghai Administrations for Industry and Commerce have issued notices stating that certain markets in Beijing and Shanghai, respectively, will be banned from selling

certain brands, and that products bearing those brands will be assumed to be counterfeit and confiscated.

- (a) Please identify the brands that are the subject of these efforts in each city.
- (b) How can companies have their brands placed on such lists?
- (c) To what extent can a landlord be held liable if they continue to sell goods that are banned under such lists or pursuant to other written notification?
- (d) What steps is China's national government taking to stop the continuing IPR infringement at wholesale and retail markets nationwide?

36. Please identify any other administrative agencies or local Administrations for Industry and Commerce that have issued similar notices. Do any of them have plans to issue similar notices?

37. The following questions concern the administration of a *sui generis* system for protection of geographical indications (GIs) by the Administration of Quality Supervision, Inspection and Quarantine (AQSIQ):

- (a) Please explain the relationship between AQSIQ's system of GI protection and the system of GI protection established by the CTO pursuant to Article 16 of China's Trademark Law. How do their functions and responsibilities differ? Is a GI registered with AQSIQ viewed differently from a GI registered with the CTO?
- (b) Has AQSIQ's system been used to enforce GIs and/or impose civil liability? Can AQSIQ enforce GIs administratively, and if so, has AQSIQ undertaken any enforcement actions? Upon what grounds can a GI registered by AQSIQ be challenged or cancelled? Does a foreign GI or trademark owner have standing to challenge the recognition of a GI by AQSIQ?
- (c) How many Chinese GIs have been registered by AQSIQ? How many non-Chinese GIs have been registered by AQSIQ?
- (d) Will a GI be refused protection under the AQSIQ system if a trademark, certification or collective mark for the term already exists under the CTO's system? If not, can that GI owner have the CTO mark cancelled? Can the CTO registered mark owner prevent confusing uses of the later-in-time GI?
- (e) Which has priority in China, a registered trademark or a later-in-time GI? What is the date of priority of the GI: the date it is protected in China, or the date it is protected in its country of origin (if different)?
- (f) Is it possible to register and use a GI in China that has not been registered with the CTO?
- (g) What bilateral agreements are currently in effect between China and other governments with regard to the recognition and protection of GIs?

VI. FAMOUS-BRANDS/TRADEMARKS

38. The following questions concern the Measures for Administration of Chinese Famous-Brand Products maintained by AQSIQ, which establish criteria for awarding the "Chinese Famous-Brand Product" quality mark displayed on a wide range of Chinese consumer products.

- (a) Article 10 states that products or enterprises "using foreign (overseas) trademark" may not apply to become Chinese Famous-Brand Products. Please explain the scope and meaning of the terms "foreign (overseas) trademark" and "using" in Article 10. In particular:
 - (i) What criteria are used to determine whether a trademark is a "foreign (overseas) trademark"?
 - (ii) Does Article 10 prevent an enterprise that uses a "foreign (overseas)" mark on one of its products from obtaining "famous-brand product" designation for a different product that only bears a domestic Chinese trademark?
 - (iii) How is this provision applied to marks owned or used by foreign-invested enterprises, and foreign companies selling to China?
- (b) Article 24 specially exempts Chinese Famous-Brand Products from quality supervision and examination by governmental departments at all levels, including export inspection. Please identify the precise measures from which Chinese Famous-Brand Products are exempt.
- (c) Article 25 provides for special listing of Chinese Famous-Brand Products in the scope of activities for cracking down on fake goods. Please identify and describe these activities, and describe the effect of being on this special listing with respect to these activities.
- (d) China appears to maintain a number of similar "famous-brand product" measures at the sub-national level (e.g., Measures of Hunan Province for Supervision of Hunan Famous-Brand Products (*Hunan Mingpai Chanpin Guanli Banfa*) (2002); Measures of Liaoning Province for Cognizance and Protection of Liaoning Famous-Brand Products (2003)). Please provide a list of such sub-national measures, and indicate how WTO Members may obtain copies of these measures.

39. The following questions concern Announcement No. 3, 2005, of the Ministry of Commerce, releasing the 2005-2006 List of Leading Export Brands Nurtured and Developed by the Ministry of Commerce, as well as the 7 June, 2005, Instruction Opinion on Supporting Famous-Brand Export Products issued by the Ministry of Commerce and seven other agencies.

- (a) Please identify the criteria used for selecting the List of Leading Export Brands, and describe in particular criteria related to trademarks or other intellectual property rights associated with brands selected for this list. Are the criteria set out in a written measure or measures? If so, how can WTO Members obtain a copy?
- (b) Would it be correct to state that the List of Leading Export Brands consists of only brands (with intellectual property rights) owned or used by Chinese companies? If not, please explain.

- (c) The Announcement states that listed brands and enterprises "*may enjoy all supporting policies.*" Please identify and describe the supporting policies. Are they the same as the policies described in the Instruction Opinion?
- (d) Section VI of the Instruction Opinion (titled "Strengthen publicity and protect intellectual property rights to create a sound market environment for the development of famous-brand export products") appears to require intellectual property rights administrative departments, such as Administrations of Industry and Commerce and Customs, to list intellectual property rights associated with famous-brand export products as "important content" and make them eligible for "special activities of protecting the said rights." Please describe these special enforcement activities.
- (e) Sections IV and V of the Instruction Opinion appear to require that Chinese agencies at all levels give certain "preferential policies" to famous-brand export products. The Instruction Opinion mentions, among other things: sale in demonstration shops free of fake goods; cultivation of domestic markets; preferential loans; export and overseas investment preferences; exemption from quality inspection; convenient customs clearance; and preferential banking and insurance practices. Please describe these preferences and identify any measures setting them out in greater detail.

40. In addition to recognizing well-known trademarks at the national level, China also maintains measures at sub-national (provincial, regional, and municipal) levels for recognizing "famous trademarks." The following questions concern these sub-national measures:

- (a) Are foreign enterprises and/or users of "foreign" trademarks eligible to become "famous trademarks" under all of these sub-national measures?
 - (b) Please describe any special protection afforded by these measures, including any protection related to the characteristic packaging and decoration of products bearing a designated "famous trademark," and protection against disparagement of such products.
 - (c) Please describe how Administrations of Industry and Commerce give effect to provisions requiring them to provide strengthened enforcement for these "famous trademarks."
 - (d) Please provide a list of such sub-national measures, and indicate how WTO Members may obtain copies of these measures.
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