

**In the World Trade Organisation
Panel Proceedings**

**DS362 China – Measures Affecting the Protection and Enforcement of
Intellectual Property Rights**

**Replies by the European Communities to
Questions from the Panel to third parties**

**Geneva
5 May 2008**

A. Criminal claims

1. What is the significance of the fact that there appears to be no dictionary definition of "commercial scale" as a single term?

1. In the view of the European Commission, the fact that there appears to be no dictionary definition of "commercial scale" as a single term is of limited significance. In the absence of a dictionary definition of "commercial scale" as a single term, identifying the "ordinary meaning" of this term may depart from the dictionary definitions of its two elements, "commercial" and "scale". As set out in greater detail in our oral statement, the ordinary meaning of these terms denotes activities of a dimension pertaining to a business or to the generation of profits, irrespective of whether they involve certain quantities – be it in value or numbers – of counterfeit or pirated goods.¹

2. This interpretation result also emanates from the application of the other means of interpretation expressed in Articles 31 and 32 of the *Vienna Convention*, in particular the context and the object and purpose of the *TRIPS Agreement*.²

3. The European Communities would generally be reticent to give a *special meaning* to the combined term "commercial scale". In this regard, the interpretation rule expressed in Article 31(4) of the *Vienna Convention* provides:

A special meaning shall be given to a term if it is established that the parties so intended.

4. As set out in the EC oral statement, the negotiating record of the *TRIPS Agreement* does not indicate that WTO Members wanted to give a *special meaning* to the term "on a commercial scale".³

2. What acts of wilful: (a) trademark counterfeiting; and (b) copyright piracy; are *not* "on a commercial scale"?

5. In the view of the European Communities, it is difficult to determine in the abstract which acts of wilful trademark counterfeiting or copyright piracy are not "on a commercial scale". As set out in our oral statement, WTO Members must, in

¹ Third Party Oral Statement by the European Communities, at para. 4.

² See Third Party Oral Statement by the European Communities, at paras. 5-14.

³ See Third Party Oral Statement by the European Communities, at para. 12.

order to capture all infringements "on a commercial scale", enable their criminal law enforcement authorities to take into account not only quantitative thresholds but also additional elements in each individual case that indicate the commercial dimension of the activity.⁴ Thus, it will be mainly for the prosecutors and criminal courts in the WTO Members to assess in each individual case whether infringement activities are "on a commercial scale". This need for a case-by-case analysis makes it difficult to exclude in the abstract infringements that are not "on a commercial scale". However, the European Communities would expect that occasional acts of a purely private nature carried out by end-consumers normally would not constitute "commercial scale" activities.

3. Please compare and contrast the use of the term "commercial scale" in Article 61 with other uses of that term in the TRIPS Agreement, such as "commercial rental" (Articles 11 and 14.4), "commercial purposes" (Articles 26.1 and 36), "commercial exploitation" (Article 27.2), "commercial terms" (Article 31(b)), "commercial value" (Article 39.2(b)) and "unfair commercial use" (Article 39.3). Is "commercial exploitation" the same as "exploitation on a commercial scale"?

Commercial rental (Articles 11 and 14.4 of the *TRIPS Agreement*)

6. Pursuant to Article 11 and by reference of Article 14.4 of the *TRIPS Agreement*, WTO Members shall provide to authors, their successors in title and to producers of phonograms, at least in respect of computer programs, cinematographic works and phonograms,

the right to authorize or to prohibit the *commercial rental* to the public of originals or copies of their copyright works. (...)
(emphasis added)

7. The term "commercial" serves to distinguish the rental rights granted in Articles 11 and 14.4 from an "exclusive right to lend", especially when lending is carried out without a commercial purpose in public libraries and institutions, which is not mentioned in the *TRIPS Agreement*.⁵ Therefore, the term "commercial" refers to rental activities *with a commercial purpose*. The provisions in question do not allow WTO Members to limit exclusive rights to rental activities of a certain

⁴ Third Party Oral Statement by the European Communities, at paras. 10 and 14.

⁵ See A. Bercovitz, in: C. M. Correa/A. A. Yusuf, *Intellectual Property and International Trade: The TRIPS Agreement*, 2nd edition 2008, at p. 136.

quantitative level. Although the use of the term "commercial" in Articles 11 and 14.4 differs from the term "on a commercial scale" in Article 61 in so far as it refers to the activity of the right holder and not of the infringer, it thus shows that the term "commercial" can in itself serve to denote activities undertaken with a commercial purpose even if the context of the term does not explicitly refer to the "purpose" of the activity.

"Commercial purposes" (Articles 26.1 and 36 of the *TRIPS Agreement*)

8. Articles 26.1 and 36 of the *TRIPS Agreement* give owners of protected industrial designs and of layout-designs (topographies) of integrated circuits exclusive rights against certain activities undertaken "for commercial purposes".
9. The term "for commercial purpose" refers to activities undertaken with the goal of making profit. It does not have any quantitative aspect. This follows from the ordinary meaning of the two elements of the term. "Commercial" refers to matters "likely to make a profit"⁶ and "purpose" means "a thing to be done; an object to be attained, an intention, an aim"⁷. The object and purpose of the term "commercial purposes" in these Articles is to distinguish activities undertaken for private purposes. As regards layout-designs (topographies) of integrated circuits, the term "for commercial purposes" in Article 36 of the *TRIPS Agreement* would therefore seem to have the same function as Article 6(2)(a) of the *Washington Treaty on Intellectual Property in Respect of Integrated Circuits* which provides in relevant part:

(...) *no Contracting Party shall consider unlawful* the performance, without the authorization of the holder of the right, of the act of reproduction (...) where that act is performed by a third party *for private purposes* (...). (emphasis added)

10. The European Communities considers that activities undertaken "for commercial purposes" would normally also be "on a commercial scale" within the meaning of Article 61 of the *TRIPS Agreement*. As set out in greater detail in our oral

⁶ See the *Shorter Oxford English Dictionary*, 5th Edition 2002, p. 459.

⁷ See the *Shorter Oxford English Dictionary*, 5th Edition 2002, p. 2409.

statement, profit orientation can be a relevant factor for the assessment of the business dimension of an activity.⁸

"Commercial exploitation" (Article 27.2)

11. Article 27.2 of the *TRIPS Agreement* provides in relevant part:

Members may exclude from patentability inventions, the prevention within their territory of the commercial exploitation of which is necessary to protect *ordre public* or morality (...) provided that such exclusion is not made merely because the exploitation is prohibited by their law.

12. Pursuant to this provision, WTO Members may exclude inventions from patentability based on a risk that their "commercial exploitation" within their territory could endanger *ordre public* or morality. This means that the risk must come not from the invention as such, but from its "commercial exploitation".⁹ The term "commercial exploitation" appears to be specific to the context of patents and refers to the practicing of an invention.

13. Therefore, "commercial exploitation" is not the same as "exploitation on a commercial scale" which would refer to exploitation of a dimension pertaining to a business or to the generation of profits.

"Commercial terms" (Article 31(b) of the *TRIPS Agreement*)

14. Article 31(b) of the *TRIPS Agreement* is one of the conditions for the granting of compulsory licences (in certain cases) and provides in relevant part:

such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time.

15. The proposed licensee must have made an offer to obtain a licence "on reasonable commercial terms and conditions". Whereas the term "reasonable" contains an element of fairness or appropriateness, it is qualified by the word "commercial"

⁸ Third Party Oral Statement by the European Communities, at para. 4.

⁹ See *D. Gervais*, *The TRIPS Agreement: Drafting History and Analysis*, 2nd edition 2003, Article 27, at para. 2.261.

which implies that the fairness or appropriateness of the terms and conditions must be seen in the light of operators engaged in a business to make a profit. In other words, reasonable "commercial" terms and conditions would be those which are appropriate in a commercial relationship. The primary reference for such terms and conditions must therefore be the market, where supply and demand will adjust until such point as they intersect and arrive at a point which is appropriate or reasonable for all commercial operators such that they continue in business. A similar use of the term "commercial" can be found in Article 14 of the *Agreement on Subsidies and Countervailing Measures* which states in relevant part:

(b) a loan by a government shall not be considered as conferring a benefit, unless there is a difference between the amount that the firm receiving the loan pays on the government loan and the amount the firm would pay on a comparable commercial loan which the firm could actually obtain on the market. (emphasis added)

16. As in Article 31(b), the term "commercial" here refers to a market benchmark. A licence on "reasonable commercial terms" or a "commercial loan" are deals that can be obtained on the market by operators engaged in a business to make profit. As for the other instances described above, there is not quantitative aspect to the use of the term "commercial" in this context.

"Commercial value" (Article 39.2(b) of the TRIPS Agreement)

17. Article 39.2 of the *TRIPS Agreement* obliges WTO Members to provide for certain protection of undisclosed information if such information *inter alia*

(b) has commercial value because it is secret; (...)

18. It has been observed that this requirement of "commercial value" does not necessitate "the proof of a determined investment, but the proof that the trade secret firstly pertains to the business sphere of the owner (...) – and not, for example, to his intimate or private sphere" (emphasis added).¹⁰ Consequently, the same author emphasised that "commercial value" does not require any precise quantification: "No book value exists for most confidential information. It is

¹⁰ F. Dessemontet, in: C. M. Correa/A. A. Yusuf, *Intellectual Property and International Trade: The TRIPS Agreement*, 2nd edition 2008, at p. 280.

mainly the usefulness of the information for the going concern that lends some 'commercial value' to the confidential information."¹¹

19. In the view of the European Communities, these considerations support the conclusion that "commercial value" in Article 39.2(b) requires that information pertains to the business sphere of the owner, but not that the information meets certain quantitative value thresholds. The term "commercial" is, thus, used in a similar way as in Article 61.

"Unfair commercial use" (Article 39.3 of the TRIPS Agreement)

20. According to Article 39.2 of the *TRIPS Agreement*, WTO Members must protect data which had to be submitted in order get the official approval for the marketing of certain products "against unfair commercial use".
21. The term "unfair commercial use" would denote usage of such data which is not for the purpose of examining the products for approval, but for the purpose of using it outside the approval procedure in order to make profits. As in Article 61, the term "commercial" would *inter alia* comprise activities relating to the generation of profits.

Conclusion

22. In the view of the European Communities, the contextual survey given above shows that most aforementioned provisions use the term "commercial" in a similar way as does Article 61, i.e. in order to denote activities of a dimension pertaining to a business or to the generation of profits. The term contrasts "commercial" activities with acts that are of a non-commercial nature because they are, for example, undertaken for private purposes, on an occasional basis or by public institutions for non-profit goals.

4. A frequent use of "commercial scale" appears to be in the phrase "commercial scale production". What is the ordinary meaning of the phrase "commercial scale production"?

¹¹ F. Dessemontet, in: C. M. Correa/A. A. Yusuf, *Intellectual Property and International Trade: The TRIPS Agreement*, 2nd edition 2008, at p. 280.

4bis. Quel est le sens ordinaire de la phrase "production à une échelle commerciale"? CDN, EC

4ter. ¿Cuál es el sentido corriente de la frase "producción a escala comercial"? ARG, EC, MEX

23. The European Communities already assessed the "ordinary meaning" of this term "commercial scale" departing from the dictionary definitions of its two elements, "commercial" and "scale".¹² As the European Commission is not aware that the term "commercial scale production" would have a special meaning within the meaning of Article 31(4) of the *Vienna Convention*, the ordinary meaning of the phrase "commercial scale production" would be a "production" that is on a "commercial scale", that is a production of a dimension pertaining to a business or to the generation of profits. In the view of the European Communities, the same goes for the phrases "production à une échelle commerciale" or "producción a escala comercial".

5. Without necessarily defining the terms wilful "trademark counterfeiting" and "copyright piracy", please explain the meaning of the term "on a commercial scale" in relation to different acts that constitute trademark counterfeiting and different acts that constitute copyright piracy.

24. The European Communities understands that the Panel asks for illustrations of the term "on a commercial scale" in relation to acts of wilful trademark counterfeiting and acts of wilful copyright piracy.

25. With regard to trademark counterfeiting, the European Communities would like to refer to the illustrative examples provided by Japan in its written submission. Japan rightly set out that acts of wilful trademark counterfeiting on a commercial scale can range from the sale of counterfeit goods in a store and street vending of large numbers of counterfeit goods to instances where a person sells a relatively small number of low value counterfeit products, but in which the professional organization of the activity, for example systematic cooperation with other persons, indicates a business dimension.¹³ Similar examples could be construed for cases of wilful copyright piracy on a commercial scale.

¹² Third Party Oral Statement by the European Communities, at para. 4.

¹³ Third Party Submission of Japan, at paras. 13-16.

26. It is important to note, however, that the assessment of the "commercial scale" nature of the activity requires taking into account all relevant circumstances of the case.

6. Could Australia elaborate on why it considers that the ordinary meaning of "commercial scale" can include factors related not to the infringing act itself but to its prejudicial impact on the right holder (written submission, §16, 3rd bullet)? AUS

27. The European Communities respectfully prefers not to respond to this question specifically addressed to others.

7. How should the interpretation of the TRIPS Agreement take account of technological developments since the drafting of the text which might enable large-scale infringement that lacks a commercial purpose but is highly prejudicial to the right holder? AUS, CAN, EC, THA

28. In the view of the European Communities, nothing in Article 61 of the *TRIPS Agreement* indicates that its scope should be limited to infringement activities of a certain stage of technological development. Therefore, Members are obliged to provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale – no matter whether such infringements involve old or new technologies.

29. As set out previously, the term "on a commercial scale" requires taking into account all relevant circumstances of the case in order to assess whether activities are of a dimension pertaining to a business or the generation of profits. This would also apply in cases involving the use of new technologies which enable large-scale infringement. The lack of a commercial purpose and the highly prejudicial effect on the right holder would both be relevant factors to take into account.

8. The earliest proposal to use the term "on a commercial scale" in the drafting of what became Article 61 of TRIPS may have been the EC proposal of May 1989 (MTN.TNC/NG11/W/31, p.8, contained in Exhibit US-47). Did the EC source this phrase from another instrument? EC

30. In spite of intense research, the European Communities has not been able to find any trace indicating that the phrase "on a commercial scale" in the EC proposal of 30 May 1989¹⁴ was sourced from another instrument.

9. Please provide examples of the use of the term "commercial scale" in national measures. These may not necessarily implement Article 61 of TRIPS but may, for example, concern exceptions to patent or plant breeders' rights or concern procedures to obtain marketing approvals.

31. As set out previously, there is no EC legislation on criminal IPR enforcement defining "on a commercial scale". The EC proposal for a directive on criminal measures for IPR enforcement¹⁵ is a mere draft which provides in its Article 3:

Member States shall ensure that all intentional infringements of an intellectual property right on a commercial scale, and attempting, aiding or abetting and inciting such infringements, are treated as criminal offences.

32. The draft directive, as it presently stands, does not provide for any definition of what is "on a commercial scale".

33. The EC directive on civil and administrative IPR enforcement¹⁶ refers to "on a commercial scale" in several provisions and defines this term in recital 14 as follows:

Acts carried out on a commercial scale are those carried out for direct or indirect economic or commercial advantage; this would normally exclude acts carried out by end-consumers acting in good faith.

34. The European Communities would like to note that this definition of "on a commercial scale" contains other than quantifiable elements, i.e. the purpose of the activity and the identity of the actor.

¹⁴ See Proposal by the European Communities for the Negotiations on the Enforcement of Trade-Related Intellectual Property Rights, MTN.TNC/NG11/W/31, 30 May 1989, at p. 8.

¹⁵ See Amended proposal for a directive of the European Parliament and of the Council on criminal measures aimed at ensuring the enforcement of intellectual property rights, COM(2006) 168 final of 26.4.2006, http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/com/2006/com2006_0168en01.pdf (last visited on 26.03.2008).

¹⁶ Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights (OJ L 157, 30.4.2004, p. 45), online under <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:157:0045:0086:EN:PDF> (last visited on 28 April 2008).

10. What options does the TRIPS Agreement give Members in deciding what acts of wilful trademark counterfeiting or copyright piracy on a commercial scale that they will *not* prosecute? May Members write into legislation that certain acts within this class of acts shall be exempt from criminal liability? May Members give their authorities a discretion not to prosecute certain of these acts? If they do, may they adopt this as policy and even publish it? Where is such a policy permitted by the TRIPS Agreement?

35. Given that Article 61, 1st sentence of the *TRIPS Agreement* obliges WTO Members to "provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale" (emphasis added), it gives Members very limited options not to prosecute the activities mentioned therein.

36. Exempting acts that qualify as "wilful trademark counterfeiting or copyright piracy on a commercial scale" from criminal liability on the level of legislation would clearly violate the unconditional obligation of Article 61, 1st sentence.

37. If Members gave their authorities discretion not to prosecute certain of the acts, they would arguably still act inconsistently with the obligation Article 61, 1st sentence. This follows, first, from the terms "provide for criminal procedures and penalties to be applied at least in cases of (...)" (emphasis added). These terms indicate that WTO Members must do more than simply lay down certain prohibitions in the texts of their criminal laws. In fact, they have to ensure that the corresponding criminal procedures and penalties are "to be applied". A different interpretation would also run counter to the object and purpose of Article 61, 1st sentence, which is providing for criminal enforcement with regard to two types of infringements with a particular potential of harming right holders. This object and purpose could not be achieved if WTO Members were allowed to give their authorities discretion not to actually prosecute those acts.

38. This does not imply that WTO Members do not enjoy any discretion in implementing the obligation of Article 61. The second and third sentence of Article 61 leave WTO Members considerable flexibility with regard to the type and level of penalties which the criminal courts will obviously have to adapt to the concrete degree of culpability in each individual case.

11. Please comment on the Canadian Department of Justice website document contained in Exhibit CHN-67. CDN

39. The European Communities respectfully prefers not to respond to this question specifically addressed to others.

12. Please indicate how many criminal prosecutions and convictions occur annually in your jurisdiction for wilful trademark counterfeiting and copyright piracy involving amounts less than those in the thresholds in China's 2004 and 2007 Judicial Interpretations.

40. The European Communities regrets to inform the Panel that it has not been able to gather the relevant statistical data from its Member States during the limited time available for preparing the response to this Question.

13. Canada submits that China's thresholds are "arbitrary, too high and inflexible" (written submission §4) and "so high" (oral statement §8). Mexico submits that China has set its thresholds "arbitrarily" (oral statement, §13). Is the difficulty with the use of thresholds *per se* or are there ways in which thresholds could be used while meeting the requirements of Article 61 of TRIPS? CDN, MEX

41. The European Communities respectfully prefers not to respond to this question specifically addressed to others.

14. Korea asserts that "[m]ost of the time, criminal sanction carries more deterrence effect than an administrative procedure" (oral statement §7). Can you provide evidence in support of this assertion in the specific case of intellectual property? KOR

42. The European Communities respectfully prefers not to respond to this question specifically addressed to others.

B. Customs claims

15. In your view, are border authorities permitted by Article 59 of TRIPS to dispose of goods, infringing or non-infringing, *into* the channels of commerce in any circumstances whatsoever? Please consider a situation where the goods found to be infringing are disposed of in an altered state and are no longer infringing, the infringer is effectively deprived of the goods and disposal avoids any harm to the right holder. ARG, AUS, BRA, CDN, TPKM, THA

43. The European Communities respectfully prefers not to respond to this question specifically addressed to others.

16. The EC agrees with China that customs authorities may choose a different way of disposing of infringing goods from the two specified in Article 59, 1st sentence, for example, by auction (EC written submission, §§18-19). Does Article 59 require that *other* options not specified in the 1st sentence be carried out in accordance with the principles set out in Article 46? If so, are disposal "outside the channels of commerce" and "in such a manner as to avoid any harm caused to the right holder" both applicable as principles set out in Article 46? EC

44. The European Communities considers that Articles 59, 46 TRIPS do not entirely prevent customs authorities from disposing of infringing goods through other options than the two set out in Article 46, 1st sentence TRIPS, i.e. "disposal outside the channels of commerce" or "destruction". Otherwise, there would have been no need in Article 46, 4th sentence to set conditions for the additional option of permitting the release of counterfeit goods *into* the channels of commerce. Furthermore, the terms of both Article 59 and Article 46 TRIPS require that "authorities shall have *the authority* to order" (emphasis added) the two aforementioned remedies, not that they *must use* these remedies under specified circumstances.¹⁷ Although alternative disposal options are not excluded and auctions are one theoretical alternative disposal option, the European Communities would like to clarify that it did not imply that auctions are generally in compliance with Articles 59, 46.

45. In the view of the European Communities, customs authorities choosing a different way of disposing of infringing goods than "disposal outside the channels of commerce" or "destruction" *must comply with all applicable principles* set out in Article 46. Alternative disposal options must, in particular, (a) "create an effective deterrent to infringement", (b) not grant "compensation of any sort" to the infringer, (c) be achieved "in such a manner as to avoid any harm caused to the right holder", (d) take account of "the need for proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties" and (e) not, unless there is an exceptional case, permit the release of counterfeit trademark goods into the channels of commerce on the mere basis that the unlawfully affixed trademark has been removed. The application of these principles to alternative disposal options follows from the wording of Article 59, 1st sentence, which provides that "authority to order the destruction or disposal of

¹⁷ See Third Party Submission by the European Communities, at paras. 18-19.

infringing goods" must be in accordance with the principles of Article 46 – without limiting this to the disposal outside the channels of commerce.

46. In the view of the European Communities, the phrase "disposal outside the channels of commerce" is a disposal option, but not applicable as a principle. The requirement to proceed "in such a manner as to avoid any harm caused to the right holder", on the other hand, is an overarching principle applying to all disposal and destruction options.

17. What is the significance of the fact that Article 59 of TRIPS uses the phrase "in accordance with the principles set out in Article 46", rather than the phrase "in accordance with Article 46"?

47. The European Communities considers that the reference from Article 59 could only be to the "principles" set out in Article 46 rather than to Article 46 directly since Article 46 applies to judicial rather than customs authorities. Thus, the choice of the phrase "in accordance with the principles" rather than "in accordance with" is due to considerations of drafting technique.

18. With respect to "the principles set out in Article 46", do these include:

(a) in the 1st sentence, "[i]n order to create an effective deterrent to infringement"?

(b) in the 1st sentence, "without compensation of any sort"?

(c) in the 1st sentence, disposal "outside the channels of commerce" and/or "in a manner so as to avoid any harm caused to the right holder"?

(d) in the 3rd sentence, "the need for proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties shall be taken into account"?

(e) the 4th sentence, as a separate principle or as an expression of another principle? ARG, AUS, BRA, CDN, TPKM, THA

48. The European Communities respectfully prefers not to respond to this question specifically addressed to others. The European Communities would, however, like to refer to its written submission.¹⁸

¹⁸ See Third Party Submission by the European Communities, at paras. 16-20.

19. If Members may implement the obligation in Article 59 of TRIPS by granting the requisite authority in only some circumstances (China's FWS §§195-196), is the same true for other provisions in Part III of the TRIPS Agreement that use the phrase "shall have the authority", such as Articles 44 and 45?

49. The European Communities disagrees with the underlying assumption that WTO Members may implement the obligation in Article 59 by granting the requisite authority in only some circumstances. As set out in our oral statement, the context of Articles 59, 46 and their object and purpose suggest that WTO Members are not allowed to subject the "authority to order the destruction or disposal of infringing goods" in such a large manner.¹⁹ These considerations also apply mutatis mutandis to the provisions of Article 44 and 45.

¹⁹ Third Party Oral Statement by the European Communities, at paras. 17-20.