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“QUALITY AND DIVERSITY”

Criminal Enforcement and International Intellectual Property Law

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Abstract

There is a global consensus that domain of Intellectual Property should be subjected to criminal enforcement in order to secure the rights of owners of such Intellectual Property Rights. The TRIPS Agreement was, to some extent, successful in crystallizing the consensus as regards the criminal measures to be taken by States in the event of the infringement of Intellectual Property Rights through article 61. However, the standard set by the provision by minimal, to say the least. The advent of Anti-Counterfeiting Trade Agreement has broader obligations, while also addressing some unsettled issues that have surfaced in disputes such as the China-IPRs case.

Introduction

The twenty-first century will be the century of knowledge and the century of the intellect, indeed. Innovations hold the key to the creation as well as processing of knowledge. Intellectual property (hereinafter IP) can be characterised as the property in ideas or their expression.

IP Rights are the legal rights that are granted to a person for any creative and artistic work, for any invention/discovery or for any literary work, words, phrases, symbols or designs, for a stipulated period of time. The owners of IP are granted certain exclusive rights through which they use their property without any disturbance and can prevent the misuse of their property. IP is any innovation, commercial or artistic, or any unique name, symbol, logo or design used commercially.²

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² R. Dhiraj, 'The Law of Copyright in India', *saprlaw*, p. 4 available at

IP Crime

Increasingly, the global economy is dependent upon the creation and distribution of IP to drive economic growth.³ However, markets are plagued by fakes, be it stamps, watches, cigarettes, cosmetics, pharmaceuticals, fast-moving consumer goods (hereinafter FMCG) products, auto components, software, music, films etc., resulting in significant loss to companies, corresponding evasion of tax duties and violation of the rights of the consumer. Studies by industry associations bear this out, the CII Alliance⁴ estimates that the FMCG sector loses approximately 15% of its revenue to counterfeit goods with several top brands losing up to 30% of their business due to IP crime.

IP crime is more generally known as counterfeiting and piracy. Counterfeiting is wilful trade mark infringement, while piracy involves wilful copyright infringement. There are 4 main factors contributing to the growth of IP crime⁵:

- Widespread availability of technology
- Increased globalization of world trade; it is easier to manufacture in one geographic location and distribute elsewhere. The result of more open borders and more trade is that it is also easier for counterfeits to flow across borders.
- Legal penalties are low; if they exist at all.
- The influence of organized crime.

Counterfeiting and piracy have emerged as clear and serious threats to business, consumers and government. Counterfeiting is obviously a breach of consumer affairs, health, trade, and employment law. It is the negation of all the major legislation protecting individuals.⁶ Industries which find themselves

http://www.saprlaw.com/taxblog/copyright_final.pdf , accessed on 15 October 2014.

³ The Commission on Intellectual (ICC), 'The fight against piracy and counterfeiting of intellectual property, for submission to the 35th ICC World Congress, Marrakesh, 7 June 2004', *United States Council for International Business*, 2004, p. 1 available at http://www.uscib.org/docs/icc_counterfeiting.pdf , accessed on 15 October 2014.

⁴ In order to strengthen further the enforcement of IPR in a focused manner, an Alliance in the name of CII Alliance for Anti-Counterfeiting/Piracy was formed with the leadership and initiatives of Indian industry and right holders who are affected by the counterfeiting/piracy menace in 2004. Sudhir Ravindran & S.A. Chenthil Kumara, 'Intellectual Property Crime', *Novience*, 2003, para 1 available at http://www.novience.com/articles/ip-articles/intellectual_property_crime.html, accessed on 15 October 2014.

⁵ *Ibid*, para. 4.

⁶ *Ibid*, para. 5.

in direct competition with counterfeiters suffer a direct loss in sales. Indeed, some markets are even dominated by counterfeiters, creating barriers of entry for the producers of the genuine product. Cheaper and obvious copies that are bought in good faith represent a serious threat to the company that wants its brands associated with quality and exclusivity. Beside direct losses of sales and goodwill, one should not forget the expenditure involved in protecting and enforcing IP rights.

Legal Protection – Rights with IP Owners

A counterfeit product can infringe any, or all, of the main intellectual property rights, namely trademarks, patents, designs and copyrights. Counterfeiting predominately deals with trademarks, whereas copyright infringements are referred to as piracy. Generally patents alone are not usually referred to as counterfeits or as piracy.⁷

The difference between these rights should be understood. Both, patents and copyrights are monopolies granted by law. A trade mark is not a monopoly. The proprietors of patents and copyrights can grant a license to others without conveying any real interest. A license in these situations is defined as a purchased right to act without the threat of suit by the right's owner.

The creators of any invention, or a mark or a literary or creative work spend money as well as time for creating the IP. Hence, they should also be granted certain rights like exclusive use of their invention or claiming remedies for the infringement etc. The rights granted to patent holders, trademark holders and copy right holders are as follows:

Patent

A patent grants the right to stop others from copying, manufacturing, selling, and importing the invention without the patent holder's permission. The patent also allows selling the invention and all the Intellectual Property (IP) rights, licensing the invention to someone else but retaining all the Intellectual

⁷ Dhakad Keshav S & Kher Priyanka of Anand and Anand, 'India strengthens software protection', *ManagingIntellectualProperty*, 2008 available at

<http://www.managingip.com/Article.aspx?ArticleID=1321252>, accessed on 15 October 2014.

Property Rights, discussing the invention with others in order to set up a business based around the invention.⁸

Trademarks

A trade mark is a sign which can distinguish the goods and services of the trademark holder from those of the competitors. It can be for example words, logos or a combination of both. Registering a Trademark is not compulsory.⁹ It may be registered or unregistered.

Registered Trademark: Registering a trade mark gives Trademark holder the exclusive right to use his/her mark for the goods and/or services. If the trademark is registered then the symbol ® is placed next to the trademark so as to warn others against using it. However, using this symbol for a trade mark that is not registered is an offence.

Unregistered Trademark: For the protection of unregistered trademark, if it is not registered, still the holder of an unregistered trademark will be able to take an action against anyone who uses it without his/her permission through the common law action of passing off. To be successful in a passing off action, one has to prove that the mark belongs to him/her, he/she must have built up a reputation in the mark and he/she has been harmed in some way by the other person's use of the mark.¹⁰

Copyright

Copyright is a right given by the law to creators of literary, dramatic, musical and artistic works and producers of cinematograph films and sound recordings.¹¹ In fact, it is a bundle of rights including, *inter alia*, rights of reproduction, communication to the public, adaptation and translation of the work. Copyright ensures certain minimum safeguards of the rights of authors over their creations, thereby protecting and rewarding creativity.

⁸ Davey Hemi Paresh Kumar, 'Criminal Implications of IP Infringement in India', IPFrontline, 2009, para. 4 available at <http://ipfrontline.com/2009/10/criminal-implications-of-ip-infringement-in-india/>, accessed on 15 October 2014.

⁹ *Trade Marks Act*, 1999, India, s. 2(1)(zb).

¹⁰ T. Ramakrishna, *Basic Principles and Acquisition of IPR*, Center for Intellectual Property Rights and Advocacy, National Law School of India University, Bangalore, 2005.

¹¹ *Copyrights Act*, 1957, India, s. 14.

Infringement of IP

Infringement is an encroachment upon an owner or an authorized user's property by an outsider without the owner's prior approval. An illegitimate use of somebody else's property consequently leads to infringement. Infringement is breach or the contravention of the prescribed procedure of the law. When a person acts *ultra vires*, it becomes a breach of law, which ultimately results in violation or infringement of law. Infringement is described as 'a crime less serious than a felony.'¹²

The use of intellectual property by a stranger without the prior consent of the owner is infringement of IP. Such infringement takes place due to the encroachment in the IP of an owner. Hence, it is essential to protect the ideas from getting into wrong hands.

Criminal Enforcement and International IP Law

A number of countries have introduced criminal sanctions in relation to piracy and counterfeiting. Article 61 of the *Trade-related Aspects of Intellectual Property Rights* (hereinafter *TRIPS*) *Agreement* requires criminal procedures and penalties for cases of wilful trademark counterfeiting or copyright piracy on a commercial scale. Complying with the *TRIPS Agreement*, a number of countries provide for both civil remedies and criminal penalties in relation to piracy and counterfeiting, as well as for the seizure, forfeiture and destruction of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence.

International rules IP protection have long been silent about the need to provide criminal law sanctions against certain forms of IP infringements in national laws. The two 'classic' IP treaties, the *Paris Convention for the Protection of Industrial Property* of 20 March, 1883 (hereinafter the *Paris Convention*) and the *Berne Convention for the Protection of Literary and Artistic Works* of 9 September 1886 (hereinafter the *Berne Convention*), do not contain any explicit obligations to introduce criminal law sanctions against IP infringements. However, together with the *Nairobi Treaty on the Protection of the Olympic Symbol* (hereinafter the *Nairobi Treaty*), they do contain obligations which contracting parties may choose to implement via their

¹² 'Infringement', *Mnemonic Dictionary* available at

<http://www.mnemonicdictionary.com/word/infringement>, accessed on 17 April 2014.

criminal laws. For example, under article 6 of the *Paris Convention*, Paris Union countries must prohibit by appropriate measures the use, without authorization by the competent authorities, either as trademarks or as elements of trademarks, of armorial bearings, flags, and other State emblems, of the countries of the Union, official signs and hallmarks indicating control and warranty adopted by them.¹³

In the same vein, article 1 of the *Nairobi Treaty* contains the obligation ‘to refuse or to invalidate the registration as a mark and to prohibit by appropriate measures the use, as a mark or other sign, for commercial purposes, of any sign consisting of or containing the Olympic symbol’.¹⁴ As both provisions demand a prohibition of certain uses ‘by appropriate measures’, criminal sanctions may, in theory, be one way of implementing these obligations. Furthermore, article 3 of the *Convention for the Protection of Producers of Phonograms against Unauthorized Duplication of their Phonograms* expressly provides that each Contracting State may implement the Convention by means of penal sanctions. At the same time, the flexibility inherent in these rules indicates the traditional deference on the international level to national approaches in enforcing IP rights.

Further international IP law provisions with a potential link to criminal enforcement are rare before the advent of the World Trade Organization’s (hereinafter WTO) *TRIPS Agreement*. Article 9 of the *Paris Convention* demands the seizure of ‘goods unlawfully bearing a trademark’. This ‘shall take place at the request of the public prosecutor, or any other competent authority, or any interested party, in conformity with the domestic legislation of each country.’¹⁵ Finally, article 16 of the *Berne Convention* stipulates that ‘infringing copies of a work shall be liable to seizure’ which ‘shall take place in accordance with the legislation of each country’.¹⁶ Although the *Paris Convention* does contain language indicating a possible role for criminal law enforcement authorities in IP enforcement, both Paris and Berne Convention rules emphasize the flexibility in implementing the respective treaty obligations. In the few provisions concerning IP enforcement prior to *TRIPS*

¹³ *Paris Convention for the Protection of Industrial Property*, 828 United Nations Treaty Series 305, adopted on 20 March 1883, art. 6 (1) (a).

¹⁴ *Nairobi Treaty on the Protection of the Olympic Symbol*, adopted on 26 September 1981, art. 1(1).

¹⁵ *Paris Convention* (n 13), art. 9(3) (emphasis added).

¹⁶ *Berne Convention for the Protection of Literary and Artistic Works*, 287 (E) WIPO 1992, adopted on 9 September 1886, art. 16(1) and (2).

Agreement, the traditional approach in international IP law is, therefore, characterized by the respect for national autonomy in choosing the mode of IP enforcement.

While criminal law sanctions are an option, there is no obligation to provide them in national laws. This, however, has changed with the entry into force of the *TRIPS Agreement* as Annex 1C of the *Agreement Establishing the World Trade Organization*.

This article reviews the status quo of the existing international obligations to provide for criminal sanctions against IP infringements and focuses on the core minimum standards embodied in the *TRIPS Agreement* and the flexibilities pertaining to criminal enforcement under it. A WTO dispute between the US and China is the first where these minimum standards and flexibilities were addressed by a WTO Panel. Since 2007, several countries have negotiated an *Anti-Counterfeiting Trade Agreement* (hereinafter *ACTA*), which aims to set new international standards on IP enforcement, including significant obligations on criminal sanctions. Eight of the parties to *ACTA* negotiations (Australia, Canada, Japan, the Republic of Korea, Morocco, New Zealand, Singapore and the United States of America) signed the agreement in Tokyo on 1 October 2011; whereas the European Union and 22 of its Member States did so on 26 January 2012. This article also analyses the provisions of *ACTA* on criminal enforcement, focussing on the extent to which they go beyond the existing *TRIPS* standards and their implications.

Criminal Enforcement under the *TRIPS* Agreement

Part III of the *TRIPS Agreement* contains 20 provisions on the enforcement of IP rights. By covering general obligations, civil and administrative procedures and remedies, provisional as well as border measures and criminal procedures, it is the first comprehensive multilateral instrument setting out detailed obligations for domestic IP enforcement regimes.¹⁷

In fact, the perceived lack of effective enforcement obligations, coupled with increasing trade in counterfeit goods, was the initial *raison d'être* for

¹⁷ Daniel J. Gervais, *The TRIPS Agreement – Drafting History and Analysis*, 3rd edn, Sweet & Maxwell, London, 2008, p. 352.

industrialized countries to push for an integration of IP protection into the world trading system.¹⁸

International Minimum Standards and Flexibilities under Article 61 of the TRIPS

Within the comprehensive part on IP enforcement of the *TRIPS Agreement*, section 5 on criminal procedures is relatively brief. This section consists of only one provision, article 61, which states:

Members 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. Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity. In appropriate cases, remedies available shall also include the seizure, forfeiture and destruction of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence. Members may provide for criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights, in particular where they are committed wilfully and on a commercial scale.

In essence, article 61 supplements the preceding modes of IP enforcement prescribed by *TRIPS Agreement* in order to achieve the general Part III objective, described in article 41(1) of the *TRIPS Agreement* as ‘to permit effective action against any act of infringement of intellectual property rights’, including ‘remedies which constitute a deterrent to further infringements’.¹⁹ For companies in particular, the threat of criminal law enforcement and the potentially devastating effect for their public image makes criminal IP

¹⁸ C. Correa, *Trade Related Aspects of Intellectual Property Rights – A Commentary on the TRIPS Agreement*, Oxford University Press, Oxford, 2005, p. 409; ICTSD/UNCTAD, *Resource Book on TRIPS and Development: An Authoritative and Practical Guide to the TRIPS Agreement*, Cambridge University Press, 2005, p. 409 available at www.iprsonline.org/unctadictsd/resourcebookindex.htm, accessed on 17 April 2014.

¹⁹ Article 41(1), however, equally emphasizes that ‘these procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.’

enforcement an effective tool against infringements and a strong deterrent.²⁰ Indeed, the deterrent generally provided by criminal sanctions may be so strong that it prevents companies, especially small and medium enterprises (hereinafter SMEs), from engaging in potentially legitimate business activities such as operating around patented inventions.²¹ At the same time, developing countries that suffer from high levels of street crime have voiced concerns over the use of scarce law enforcement resources to protect private IP rights.²²

Against this background, it is important to highlight the limited scope of article 61 of the *TRIPS Agreement* and its inherent flexibilities as well as those external ones which allow WTO member states to implement criminal procedures tailored to the domestic circumstances. Distinct from some earlier drafts which covered all forms of IP infringements²³, the final version of article 61 of the *TRIPS Agreement*.

requires criminal sanctions only in ‘cases of wilful trademark counterfeiting or copyright piracy on a commercial scale’. For other forms of IP infringements – even if committed wilfully and on a commercial scale – the last sentence of Article 61 of the *TRIPS Agreement* only foresees an (optional) right for WTO members to introduce criminal sanctions, not an obligation to do so. Article 61 further contains two sentences on the types of remedies mandated: WTO members can choose between ‘imprisonment and/or monetary fines sufficient to provide a deterrent’. This choice must be made consistent ‘with the level of penalties applied for crimes of a corresponding gravity.’ Hence, while providing the general benchmarks for choosing appropriate remedies, *TRIPS Agreement* does not mandate specific criminal law sanctions for IP infringements. Finally, the available remedies must ‘also include the seizure, forfeiture and destruction of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence’. However, this obligation is qualified by the *chapeau* phrase ‘in appropriate cases’ – which

²⁰ J. S. Busche Vander & Peter T. Stoll (eds), *TRIPs – Internationales und Europäisches Recht Geistigen Eigentums*, Carl Heymanns Verlag, Cologne, 2007, p.688; C. Correa, ‘The Push for Stronger Enforcement Rules: Implications for Developing Countries’, The Global Debate on the Enforcement of Intellectual Property Rights and Developing Countries Issue Paper No. 22, ICTSD, 2008, p. 42.

²¹ Christophe Geiger (ed.), *Criminal Enforcement of Intellectual Property: A Handbook of Contemporary Research*, Edward Elgar Publishing Ltd., Massachusetts, 2012, p. 174.

²² *Ibid.*

²³ Negotiating Group on Trade-Related Aspects of Intellectual Property Rights including Trade in Counterfeit Goods, *Status of Work in the Negotiating Group, Chairman’s Report to the GNG*, 23 July 1990, Doc. no. MTN.GNG/NG11/W/7, para. 24.

arguably leaves a lot of leeway to WTO member States to decide the circumstances when these specific remedies apply.

It follows that the core international minimum standard is the *TRIPS* obligation to provide criminal sanctions ‘in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale.’ Both ‘trademark counterfeiting’ and ‘copyright piracy’ are further defined in article 51 of the *TRIPS Agreement*, which provides:

For the purposes of this Agreement:

- (a) ‘counterfeit trademark goods’ shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation;
- (b) ‘pirated copyright goods’ shall mean any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.

Thus, the obligation to impose criminal sanctions under *TRIPS Agreement* applies only to two specific types of trademark and copyright infringements. For those defined cases, article 61 of the *TRIPS Agreement* contains two further qualifications. Next to the condition of ‘wilfulness’, commentators have highlighted the requirement that limits the obligation to introduce criminal sanctions to the acts committed ‘on a commercial scale’ as a key flexibility which leaves ample policy space for WTO members.²⁴ In sum, the international minimum standard for criminal sanctions is limited to specifically

²⁴ H. Xue, ‘An Anatomical Study of the United States versus China at the World Trade Organisation on Intellectual Property Enforcement’, vol.6, *European Intellectual Property Review* 292, p. 295.

defined forms of IP infringements with the further requirements of wilfulness and ‘commercial scale’.²⁵

In order to assess the scope of this minimum standard obligation, article 61 has to be seen in the context of two more general *TRIPS* provisions, which have a specific potential to affect its interpretation: First, the third sentence of Art. 1(1) clarifies that WTO Members are ‘free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.’ Second, article 41(5) of the *TRIPS* Agreement states:

It is understood that this Part does not create any obligation to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general, nor does it affect the capacity of Members to enforce their law in general. Nothing in this Part creates any obligation with respect to the distribution of resources as between enforcement of intellectual property rights and the enforcement of law in general.

A WTO Panel Report has, *inter alia*, addressed the obligation flowing from article 61 of the *TRIPS Agreement* and the role of the two general provisions mentioned above.²⁶ Now, the paper offers a review of the Panel’s findings as they define the existing minimum standards on international criminal IP enforcement and the relevant *TRIPS* flexibilities.

Guidance from the *China-IPRs Case*

In 2007, the US initiated proceedings under the WTO Dispute Settlement Understanding (DSU) against China, *inter alia*, claiming that the thresholds in Chinese law for criminal liability for IP infringements are inconsistent with China’s obligations under article 61 of the *TRIPS Agreement*.²⁷ The United States requested consultations with China concerning certain measures pertaining to the protection and enforcement of intellectual property rights in China. The four matters on which the United States requested consultations were:

²⁵ See WTO, *Panel Report, China – Measures Affecting the Protection and Enforcement of Intellectual Property Rights (China-IPRs)*, 2009, Doc. No. WT/DS3262/R.

²⁶ *Ibid.*

²⁷ *Ibid.*

- (i) the thresholds that must be met in order for certain acts of trademark counterfeiting and copyright piracy to be subject to criminal procedures and penalties;
- (ii) goods that infringe intellectual property rights that are confiscated by Chinese customs authorities, in particular the disposal of such goods following removal of their infringing features;
- (iii) the scope of coverage of criminal procedures and penalties for unauthorized reproduction or unauthorized distribution of copyrighted works; and
- (iv) the denial of copyright and related rights protection and enforcement to creative works of authorship, sound recordings and performances that have not been authorized for publication or distribution within China.²⁸

The United States claimed that the four above-mentioned matters possible inconsistencies with the *TRIPS Agreement* arose due to the following reasons²⁹:

- The lack of criminal procedures and penalties for commercial scale counterfeiting and piracy in China as a result of the thresholds appears to be inconsistent with China's obligations under article 41.1 and 61 of the *TRIPS Agreement*.
- The requirement that infringing goods be released into the channels of commerce under the circumstances set forth in the measures at issue appears to be inconsistent with China's obligations under Articles 46 and 59 of the *TRIPS Agreement*.
- Authors of works whose publication or distribution has not been authorized (and whose publication or distribution is therefore prohibited) appear not to enjoy the minimum standards of protection specially granted by the *Berne Convention* in respect of those works (and may never enjoy such protection if the work is not authorized, or is not authorized for distribution or publication in the form as submitted for review). In addition, the rights of authors of works whose publication or distribution is required to undergo pre-publication or pre-distribution review appear to be subject to the formality of successful conclusion of such review. The

²⁸ *Ibid.*

²⁹ See World Trade Organization, *Request for Consultation by the United States, China-Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, 16 April 2007, Doc no. WT/DS362/1.

foregoing appears to be inconsistent with China's obligations under Article 9.1 of the *TRIPS Agreement*. In addition, to the extent that the *Copyright Law* also denies protection of so-called related rights to performers and producers of sound recordings during the period of any pre-publication or pre-distribution, the Copyright Law appears to be inconsistent with China's obligations under Article 14 of the TRIPS Agreement. Furthermore, to the extent that different pre-distribution and pre-authorization review processes for Chinese nationals' works, performances (or their fixations) and sound recordings than for foreign nationals' works, performances (or their fixations) and sound recordings result in earlier or otherwise more favorable protection or enforcement of copyright or related rights for Chinese authors' works, Chinese performers' performances (or their fixations) and Chinese producers' sound recordings, the measures at issue appear to be inconsistent with China's obligations under Article 3.1 of the *TRIPS Agreement*. Additionally, to the extent that Article 4 of the Copyright Law causes foreign authors of works whose publication or distribution has not been authorized not to enjoy the rights granted to Chinese authors, the measures at issue appear to be inconsistent with China's obligations under Article 9.1 of the *TRIPS Agreement* (with respect at least to China's obligations to comply with Articles 5(1) and 5(2) of the *Berne Convention*). In addition, to the extent that Article 4 of China's *Copyright Law* makes it impossible for rights holders to enforce their copyrights or related rights with respect to works, performances or sound recordings that have not been authorized for publication or distribution, China appears to act inconsistently with China's obligations under Article 41.1 of the *TRIPS Agreement*.

- To the extent that wilful copyright piracy on a commercial scale that consists of unauthorized reproduction — but not unauthorized distribution — of copyrighted works, and vice versa, may not be subject to criminal procedures and penalties under the law of China, this would appear to be inconsistent with China's obligations under Articles 41.1 and 61 of the *TRIPS Agreement*.

Various third countries joined the consultation proceedings and a WTO Panel was constituted. In January 2009, a WTO Panel issued its report which concluded that the US has 'not established that the criminal thresholds are

inconsistent with China's obligations under the first sentence of Article 61 of the TRIPS Agreement.³⁰ The conclusions arrived at by the Panel were³¹:

- (i) The panel concluded that the *Copyright Law*, specifically the first sentence of Article 4, is inconsistent with China's obligations under Article 5(1) of the *Berne Convention* (1971), as incorporated by Article 9.1 of the *TRIPS Agreement*; and Article 41.1 of the *TRIPS Agreement*.
- (ii) With respect to the Customs measures, the panel determined that Article 59 of the *TRIPS Agreement* is not applicable to these measures insofar as they apply to goods destined for exportation and that the United States has not established that these measures are inconsistent with Article 59 of the *TRIPS Agreement*, as it incorporates the principles set out in the first sentence of Article 46 of the *TRIPS Agreement*. The panel also determined that the Customs measures are inconsistent with Article 59 of the *TRIPS Agreement*, as it incorporates the principle set out in the fourth sentence of Article 46 of the *TRIPS Agreement* and that the United States has not established that the criminal thresholds are inconsistent with China's obligations under the first sentence of Article 61 of the *TRIPS Agreement*.
- (iii) The panel concluded that, to the extent that the *Copyright Law* and the Customs measures as such are inconsistent with the *TRIPS Agreement*, they nullify or impair benefits accruing to the United States under that Agreement, and recommended that China bring the *Copyright Law* and the Customs measures into conformity with its obligations under the *TRIPS Agreement*.

Any WTO panel report on international IP law is not only relevant because of the (de facto) exclusive jurisdiction the WTO dispute settlement system enjoys over disputes concerning the main international IP treaties.³² Furthermore, WTO Panels and the Appellate Body are, by virtue of article 3(2) of the *Dispute*

³⁰ The Panel exercised judicial economy with respect to the further claims regarding China's criminal enforcement laws under the second sentence of Art. 61 as well as Art. 41(1) TRIPS. Neither party has appealed the ruling which was accepted by the WTO Dispute Settlement Body (DSB) on 20 March 2009. WTO (n 25), no. 7.669, 7.681 and 8.1.

³¹ *Ibid.*

³² The jurisdiction over *TRIPS* disputes is, by virtue of Art. 23(1) and 2(a) DSU, exclusive *de jure*. By incorporating *inter alia* the main substantive provisions of the *Paris* and *Berne Convention* into *TRIPS*, WTO Panels enjoy jurisdiction also over the two classic IP treaties. This jurisdiction is *de facto* an exclusive one since the theoretical option of bringing a case on *Paris* or *Berne Convention* rules to the ICJ under article 33 of the *Berne Convention* or article 28 of the *Paris Convention*, which has never been used.

Settlement Understanding (herein after *DSU*), bound ‘to clarify the existing provisions of those agreements in accordance with customary rules of interpretation of public international law’ – as embodied in articles 31-33 of the *Vienna Convention on the Law of Treaties* (hereinafter *VCLT*).³³ By setting out an ‘economical code of 15 principles’,³⁴ the general rule set out in article 31 of the *VCLT* provides guidance on the relative weight a treaty interpreter should attribute to the main elements of treaty interpretation: the good faith principle, as well as ordinary meaning, context, and object and purpose of a treaty.³⁵ Although treaty interpretation is ‘to some extent an art, not an exact science’,³⁶ these elements provide at least a certain benchmark for reviewing the results of an interpretative process which otherwise may appear arbitrary or at least questionable. Pledges to follow these customary rules can create a sense of objectivity and hence may add legitimacy to the interpretation exercise and its result. It is therefore not surprising that WTO Panels – like the one on the China-IPRs dispute – emphasize their commitment to the *VCLT* interpretation rules.

The panel acknowledged that such adherence is even more important in the dispute given the ‘sensitive nature of criminal matters’ and China’s ‘concerns regarding sovereignty’.³⁷ In defining the scope of the international minimum standard set out in article 61, the panel first addressed the role of the third sentence of article 1(1) of the *TRIPS Agreement* regarding the freedom to determine the appropriate method of implementing *TRIPS Agreement*. It noted that despite the ‘differences among Members’ respective legal systems and practices tend to be more important in the area of enforcement . . . 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.’³⁸ The panel then observed:

³³ WTO jurisprudence, from the beginning, has interpreted the reference under article 3(2) of *DSU* to primarily refer to article 31-33 of the *VCLT*. Michael Lennard, ‘Navigating by the Stars: Interpreting WTO Agreements’, vol. 5, no.1, *Journal of International Economic Law* 17, 2002, pp. 17-89.

³⁴ Ian McTaggart Sinclair, *The Vienna Convention on the Law of Treaties*, 2nd edn, Manchester University Press, 1984, p.153.

³⁵ Article 31(1) of the *VCLT* explains 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 their context and in the light of its object and purpose’.

³⁶ See ‘Commentary on Final Draft Articles of the Law of Treaties’ in International Law Commission (hereinafter ILC), *Yearbook of the International Law Commission*, vol. II, 1996, arts. 27-29, pp. 217-226.

³⁷ WTO (n 25), no. 7.501.

³⁸ *Ibid*, no. 7.513.

The standard of compliance with article 61 is the minimum internationally agreed standard set out in that article. The minimum standard in Article 61 does not defer to China's domestic practice on the definition of criminal liability and sanctions for other wrongful acts in areas not subject to international obligations under the *TRIPS Agreement*, unless it so states. For example, the second sentence refers to 'crimes of a corresponding gravity' which might refer to domestic practice in other areas. However, the first sentence of article 61 does not make any such reference.³⁹

Criminal enforcement provisions in the *Anti-counterfeiting Trade Agreement (ACTA)*

In October 2007, the US, Japan, South Korea, Mexico, New Zealand, Switzerland and the EU announced their intention to negotiate ACTA.⁴⁰ The expressed idea is to 'establish new international norms, helping to create a new global gold standard on IPR enforcement'.⁴¹ ACTA has caused controversy not only because the treaty obligations it would create seem to go significantly beyond the existing international standards in *TRIPS*, but also due to the almost complete absence of transparency in access to any draft negotiating texts.⁴² After years of secrecy and forced by various leaks,⁴³ the ACTA negotiating parties – the EU, the US, Japan, Australia, New Zealand, Canada, South Korea,

³⁹ *Ibid*, no. 7.514.

⁴⁰ The number of parties negotiating ACTA has changed subsequently. At the time of writing (April 2010), Morocco, Singapore, Australia and Canada have joined the negotiations alongside those mentioned above. For an updated detail, see 'Joint Press Statement of the Anti-Counterfeiting Trade Agreement Negotiating Parties', *Office of the United States Trade Representatives*, 2011 available at <http://www.ustr.gov/about-us/press-office/press-releases/2011/october/joint-press-statement-anti-counterfeiting-trade-ag>, accessed on 20 October 2014.

⁴¹ 'European Commission seeks mandate to negotiate major new international anti-counterfeiting pact', *European Commission Press Release Database*, 23 October 2007, IP/07/1573 available at http://europa.eu/rapid/press-release_IP-07-1573_en.htm?locale=en, accessed on 20 October 2014.

⁴² Michael Geist, *ACTA Guide, Part Three: Transparency and ACTA Secrecy*, *Michael Geist's Official Website*, 27 January 2010 available at <http://www.michaelgeist.ca/content/view/4737/125/>, accessed on 17 April 2014.

⁴³ 'Anti-Counterfeiting Trade Agreement Informal Predecisional/Deliberative Draft', *PIJIP IP Enforcement Database*, 18 January 2010 available at <http://sites.google.com/site/ipenforcement/acta>, accessed on 17 April 2014.

Singapore, Morocco, Mexico and Switzerland – finally released an ‘official’ draft text in April 2010.⁴⁴ After its release, subsequent rounds of negotiations produced revised ACTA drafts which were again leaked to the public. On 2 October 2010 finally, the negotiating parties released a new consolidated text reflecting the outcome of the 11th and final round of negotiations.⁴⁵

This October text is almost identical to the final *ACTA* version which the negotiating parties made available in early December 2010.⁴⁶ The final text allows insights into the new gold standards the negotiating parties aim at. The paper now offers a review of the provisions on criminal enforcement contained in the early leaked *ACTA* draft and in its final May 2011 text. The goal is to provide a preliminary analysis on the extent to which the existing international standard embodied in Art. 61 of the *TRIPS Agreement* is superseded by a new *ACTA* standard.

Section 4 of the second chapter (concerning the ‘Legal Framework for the Enforcement of Intellectual Property Rights’) in *ACTA* deals with obligations pertaining to the ‘Criminal Enforcement’ of IP rights. It contains four articles with comprehensive provisions on ‘Criminal Offenses’, ‘Penalties’, ‘Seizure, Forfeiture and Destruction’ and ‘Ex Officio Criminal Enforcement’.⁴⁷ The general approach is to go beyond article 61 of the *TRIPS Agreement* by either 1) introducing additional definitions or interpretations of existing TRIPS obligations;⁴⁸ 2) otherwise strengthening existing obligations;⁴⁹ 3) removing existing flexibilities;⁵⁰ or 4) introducing completely new provisions on criminal enforcement.⁵¹

Under article 23 of *ACTA*, dealing with ‘Criminal Offenses’, section 1 reiterates the core obligation under *TRIPS*, that is, 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’. The January 2010

⁴⁴ *Ibid.*

⁴⁵ Gieger (n 21), p. 184.

⁴⁶ ‘Anti-Counterfeiting Trade Agreement’, Ministry of Foreign Affairs, Japan, 1 October 2011 available at http://www.mofa.go.jp/policy/economy/i_property/pdfs/acta1105_en.pdf, accessed on 20 October 2014.

⁴⁷ *ACTA* (n 46) arts. 23-26.

⁴⁸ *Ibid.*, Art. 23(1)

⁴⁹ *Ibid.*, Art.24

⁵⁰ *Ibid.*, Art. 25.

⁵¹ *Ibid.*, Art. 23(2), (3).

ACTA draft however added two new cases where criminal sanctions are mandated: ‘related rights piracy’ and ‘trademark infringement caused by confusingly similar trademark goods’.⁵² Furthermore, the acts against which countries would have to provide criminal sanctions included wilful importation and exportation of counterfeit trademark goods and, according to the US and Japan, also of pirated copyright goods.⁵³

Conclusion

International IP law has moved from the absence of any obligations on criminal IP enforcement in the ‘pre-TRIPS era’ to a flexible international minimum standard embodied in article 61 of the *TRIPS Agreement*. The WTO Panel Report in the China-IPRs dispute confirms the policy space WTO members enjoy under the notion of ‘commercial scale’: the relative, situation-specific interpretation leaves discretion to set thresholds for criminal liability taking into account domestic products and markets. While one might agree with this result, an important systemic flaw of the Panel’s interpretative exercise is the absence of any serious consideration of the treaties’ (i.e. *TRIPS*) object and purpose. The traditional reluctance to resort to teleological interpretations in WTO dispute settlement can be understood in the context of WTO members’ fear of a supranational court interfering with their sovereignty.⁵⁴ Any treaty interpretation which claims to focus on the intention of the contracting parties or the ratio underlying a specific rule is likely to trigger objections of arbitrariness of the in interpretation.

The resulting concerns about objectiveness and legitimacy should however not prevent an interpreter from resorting to the treaty’s object and purpose, as long as the latter, is expressed in or at least can be derived from the text of the treaty. Since, the *TRIPS* contains an explicit statement of its objectives and WTO members have unanimously underlined the importance of these objectives for the interpretation of every *TRIPS* provision, Panels give sufficient weight to articles 7 and 8 of the *TRIPS Agreement*, especially where broad and open terms like commercial scale are at stake.

⁵² While the addition of related rights piracy apparently enjoyed the consent of all negotiating parties, Australia, Mexico and Canada rejected the addition of ‘confusingly similar trademark goods.’

⁵³ Gieger (n 21), p. 185.

⁵⁴ *Ibid.*

The current *status quo* in international criminal IP enforcement is however likely to undergo significant changes. In case *ACTA* becomes the next international gold standard in IPR enforcement, it will replace the flexible minimum standard of article 61 of the *TRIPS Agreement* with a set of more detailed and comprehensive rules on criminal offences, liability and penalties as well as other specific remedies. The leaked draft texts indicated a significant departure from the *TRIPS* approach which takes away the key flexibilities in the core obligation embodied in the first sentence of article 61. The final *ACTA* text is not as broad and ambiguous, but still goes considerably beyond the *TRIPS* standards. Apart from adding new offences, the qualification ‘commercial scale’ is defined to include, *inter alia*, all wilful trademark, counterfeiting and copyright and related rights piracy which are ‘carried out as commercial activities for direct or indirect economic or commercial advantage’. This not only interferes with the interpretation in the WTO Panel Report, but diminishes much of the current ability to tailor criminal IP enforcement to the domestic environment. The absence of policy space equivalent to the *TRIPS* would not only result from the more detailed, comprehensive and stringent provisions in the *ACTA*. Although *ACTA* contains a reference to the balancing objectives and public interest principles in articles 7 and 8 of the *TRIPS Agreement*⁵⁵, the experience of *TRIPS* Panels unfortunately shows that one should not expect too much in terms of a flexible and balanced understanding of its provisions. This, in turn, might lead to *ACTA* interpretations which significantly affect national sovereignty in sensitive areas like criminal law. Indeed, the question which conduct exactly deserves the sanction of criminal law should be left to the decision of national lawmakers, to be determined in line with the domestic social and economic environment.

One legal scholar points out that the *ACTA* is modelled after the US’ copyright criminal provisions. Thus, one can view that the *ACTA* is the US’ effort to criminalize the IP infringement internationally in light of the continued proliferation of counterfeiting and piracy. The *ACTA* was negotiated by the Office of the US Trade Representative (USTR) between over thirty countries over the course of five years. Prior to the *ACTA*, *TRIPS Agreement* provided international standards for the enforcement of intellectual property rights. The *TRIPS* agreement contains only one article about criminal procedures which was criticized to be ambiguous and overbroad. Scholars contended that Article 61, the only criminal enforcement provision in *TRIPS* agreement, provided vague minimum standard which was “crafted as broad legal

⁵⁵ *ACTA* (n 46), art. 2(3).

standards, rather than as narrow rule” and made “difficult for right holders to effectively enforce their rights.” Further, it was worded to give member states discretions to follow its own traditions to implement enforcements. According to some commentators, the *ACTA* was negotiated by developed countries that were frustrated with these ineffective aspects of the *TRIPS* agreement.

The *ACTA*, which was ultimately finalized in May 2011, expands both the scope of criminalized behaviour and the available punishments. The *ACTA* and the *TRIPS Agreement* both require that parties provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright [or related rights] piracy on a commercial scale. However, the *ACTA* goes a step further than the *TRIPS* agreement by providing some definition of ‘commercial scale’ which was the focal point of the US-China dispute in 2009, in which the US argued that China had failed to comply with the *TRIPS Agreement* by including in its laws high thresholds for applying criminal procedures and penalties to intellectual property infringement. Thus, in the *ACTA* unlike the in *TRIPS Agreement*, ‘commercial scale’ is clearly defined as ‘acts carried out on a commercial scale include at least those carried out as commercial activities for direct or indirect economic or commercial advantage.’⁵⁶

⁵⁶ ‘Copyright Criminal Measures in the ACTA’, *Foundation for a Free Informative Infrastructure*, p.1 available at <http://people.ffii.org/~ante/acta/ACTA-FFII-Criminal-Measures.pdf>, accessed on 20 October 2014.