



FOR RELEASE

April 30, 2007
Washington, DC

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**The Copyright Industries Note
USTR Decisions in its Annual Special 301 Report**

**IIPA Supports Continued Efforts by USTR and Other U.S. Government
Agencies to Improve Copyright Laws, Enforcement and Market Access Abroad**

IIPA Supports an Out-of-Cycle Review for Russia and Elevation of Thailand to the Priority Watch List

Washington—Today the International Intellectual Property Alliance (IIPA), a coalition of seven trade associations representing the copyright-based industries, noted the decisions made by the Office of the U.S. Trade Representative (USTR) in its annual Special 301 report, covering 43 countries.

“China and Russia again remain the two countries that are of the greatest concern to the copyright industries, as they were in 2006 and prior years,” said Eric H. Smith of the IIPA. “While there have been developments in both these key markets over the year, enforcement efforts remain inadequate, and the copyright industries continue to await truly effective and deterrent enforcement (especially criminal enforcement) in both countries, enhanced legal reform, and greater market access for legitimate copyrighted materials.”

In commenting on this year’s Special 301 process, Smith noted: “The Special 301 process is a critically important tool by which the U.S. government has been able to secure improved protection and enforcement in our key markets around the world. The success of this process over the years has generated billions of dollars in increased revenue and huge growth in employment for the copyright industries, now one of the most dynamic sectors of our economy. This success has been due to the hard work of U.S. government agencies, led by the USTR, to implement Congress’ mandate to effect real improvement in IPR protection and enforcement and fair and equitable market access for the copyright industries.”

With respect to IIPA members’ key markets, Smith continued, “Despite the repeated efforts of industry and the U.S. government to convince the **Russian** government to provide meaningful and deterrent enforcement against massive Russian optical disk factory piracy as well as all other types of piracy—including some of the world’s most open and notorious websites selling unauthorized materials, such as www.allofmp3.com—the unfortunate truth is that sufficient progress has not yet been made. A Bilateral Market Access Agreement on Intellectual Property Rights, negotiated by USTR last year, holds some hope. It requires Russia to take significant, specific deterrent enforcement actions and to undertake additional copyright law reforms by June 1, 2007. This deadline must be enforced and IIPA is pleased that USTR will conduct an out-of-cycle-review to ensure that full compliance is achieved with respect to the June 1 deadlines. If Russia does not comply with its commitments, the U.S. government should withdraw Russia’s duty-free preferential trade benefits under the GSP Program immediately.”

“**China’s** weak enforcement regime, which relies almost entirely on non-deterrent administrative enforcement, continues to present serious problems for many of the industry sectors in the IIPA (the TRIPS Agreement requires countries to “provide for criminal procedures and penalties to be applied at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale”). While there has been significant progress, for example, for the business software industry and some more modest progress for certain other industries, piracy rates remain at

unacceptable levels. IIPA members continue to support full engagement between the U.S. and Chinese governments to promote better IPR protection and enforcement. Without significantly enhanced deterrent criminal enforcement, little change can be expected. China needs to improve the quality, not just the quantity, of its enforcement efforts. In addition, real progress requires China to open its markets to legitimate products of the American entertainment and publishing industries.

Smith added with respect to other priority countries: "IIPA supports and welcomes USTR's decision to elevate **Thailand** to the Priority Watch List. Piracy across all copyright sectors remained largely unchecked in 2006, despite many raids and seizures in some of these sectors. The lack of prosecutions and deterrent sentences, along with a lack of a national IP strategy, has contributed to continuing high piracy levels in Thailand."

"For the last two years, IIPA had recommended that **Brazil** be commended for its significant progress in improving anti-piracy enforcement both in-country and at its borders. We are pleased that USTR has moved Brazil to the Watch List this year in recognition of such improvements. While there is much more to do in Brazil, our industries look forward to continuing to work with Brazilian government authorities on enforcement and continued legislative reform."

Smith also noted that in some cases USTR's decisions today did not reflect the true nature of the disappointing state of protection and enforcement in certain countries. "IIPA and its members believe that **Canada, Mexico and Saudi Arabia** clearly merited elevation to the Priority Watch List, given the lack of concrete results made in those markets over the past year. For example, **Canada** continues to stand almost alone among developed countries in its failure to implement the obligations of the two WIPO digital treaties, and weak enforcement in both hard-goods and Internet piracy continues to cause great damage to legitimate right holders, both of Canadian and U.S. copyright products. Moreover, the illicit camcording of motion pictures in Canada, largely orchestrated by well-organized criminal circuits, has reached a startlingly high level. Although **Mexico** has taken significant anti-piracy actions at the retail level, the lack of coordination on criminal enforcement and prosecutions has kept piracy at continuing high levels. Finally, promises made in early 2006 by **Saudi Arabian** government officials, both to the U.S. government and to U.S. industry, to improve transparency of its enforcement system, to impose deterrent penalties, and to legalize use of business software within government ministries, went wholly unimplemented in 2006. Bilateral engagement with all these countries must continue at heightened levels if concrete progress is to be accomplished in the near term."

Priority Watch List: USTR decided to place 12 countries on the Priority Watch List in 2007: **Argentina, Chile, Egypt, India, Israel, Lebanon, the People's Republic of China, Russia, Thailand, Turkey, Ukraine and Venezuela**. As mentioned above, Thailand has been added to this list this year.

Watch List: USTR placed 30 countries on the Watch List this year. **Brazil** was added to this list in recognition of progress made there, and Belize also was lowered. USTR removed 5 trading partners from this list entirely: Bahamas, Bulgaria, Croatia, Latvia and the European Union. IIPA notes that while there has been improvement in the attitude and willingness of **Bulgarian** government officials and prosecutors to bring criminal actions in Bulgaria, piracy rates remain high, especially the growth in Internet and mobile piracy; IIPA members believe Bulgaria should have remained on the Watch List but hope to continue to work closely with Bulgarian officials to strengthen anti-piracy efforts and results. Also, in its 2007 recommendations, IIPA had recommended the addition of 5 countries to the Watch List (**Spain, Greece, Bangladesh, Nigeria and Kazakhstan**), none of which occurred. IIPA urges that strengthened bilateral engagement on the outstanding copyright issues in these markets occur during 2007.

Special 301 Monitoring: Although IIPA commends **Paraguay** for its anti-piracy efforts over the past year, few concrete and systemic results in combating the high piracy levels have been made. IIPA supports USTR's decision to monitor developments in Paraguay under Section 306 of the Trade Act of 1974.

Out-of-Cycle Reviews: USTR announced that four out-of-cycle reviews will be conducted this year – for **Russia, Pakistan, Brazil and the Czech Republic**. In February, IIPA members recommended OCRs in seven countries (including Russia and Pakistan). IIPA welcomes the OCRs for Russia and Pakistan. The Russia OCR is critical to ensure that Russia meets its Bilateral Agreement obligations. While progress has been made in many sectors in Pakistan, the picture remains bleak for the book publishing industry, and IIPA expects that these issues will be addressed as part of the OCR. Similarly, we express our hope that the Czech Government will take prompt, effective and sustained action in advance of the OCR against the notorious border markets that were identified in today's report. IIPA members hope that the U.S. government

keeps close watch on developments in the five other countries for which IIPA recommended OCRs (**South Korea, Taiwan, Indonesia, the Philippines, and Switzerland**).

GSP country review of copyright protection: U.S. government reviews are ongoing on whether particular countries adequately and effectively protect U.S. copyright materials under the GSP (Generalized System of Preferences) trade program, which provides unilateral duty-free trade privileges to many developing countries. An adverse finding can result in withdrawal or limitation of these substantial trade benefits. Currently there are three ongoing IPR reviews, all based on petitions filed years ago by the IIPA: **Russia, Lebanon, and Uzbekistan**.

Ranking chart and IIPA recommendations: On February 13, 2007, the IIPA submitted its recommendations on copyright protection, enforcement, and market access problems in 60 countries/territories, with 45 requested to be placed on an USTR list, and 15 which were discussed but not recommended for any list. A chart of USTR's 2007 301 placement, including IIPA members' estimated trade losses and piracy levels for most industry sectors on a country-by-country and industry-by-industry basis, is attached to this release, and is also posted on the IIPA website, www.iipa.com. On a global basis (that is, in all countries including the U.S. and including countries not on IIPA's 301 list), IIPA conservatively estimates that total losses due to piracy were at least \$30-35 billion in 2006, not counting significant losses due to Internet piracy, for which meaningful estimates are not yet available.

About the IIPA: The International Intellectual Property Alliance (IIPA) is a coalition of seven trade associations representing U.S. copyright-based industries in bilateral and multilateral efforts to open up foreign markets closed by piracy and other market access barriers. These member associations represent over 1,900 U.S. companies producing and distributing materials protected by copyright laws throughout the world—all types of computer software, including business applications software and entertainment software (such as videogame discs and cartridges, personal computer CD-ROMs, and multimedia products); theatrical films, television programs, DVDs and home video and digital representations of audiovisual works; music, records, CDs, and audiocassettes; and textbooks, trade books, reference and professional publications and journals (in both electronic and print media).

The Impact of the U.S. Copyright Industries on the U.S. Economy and Foreign Trade: The IIPA issued an economic report entitled *Copyright Industries in the U.S. Economy: The 2006 Report*, the eleventh study written by Stephen Siwek of Economists Inc. This report, released on January 30, 2007, details the economic impact and contributions of U.S. copyright industries to U.S. Gross Domestic Product, employment, and trade. The latest data show that the "core" U.S. copyright industries accounted for an estimated \$819.06 billion or 6.56% of the U.S. gross domestic product (GDP) in 2005. These "core" industries were responsible for 12.96% of the growth achieved in 2005 for the U.S. economy as a whole (this means that the growth contributed by these core industries (12.96%) was almost double their current dollar share of GDP (6.56%)). In addition, the "core" copyright industries employed 5.38 million workers in 2005 (4.03% of U.S. workers) in 2005. And the report, for the first time, provides data on the estimated average annual compensation for a worker in the core copyright industries: \$69,839 in 2005, which represents a 40% premium over the compensation paid the average U.S. worker. Finally, estimated 2005 foreign sales and exports of the core copyright industries increased to at least \$110.8 billion, leading other major industry sectors. Those sectors include: chemicals and related products (not including medicinal and pharmaceutical products); motor vehicles, parts and accessories; aircraft and associated equipment; food and live animals; and medicinal and pharmaceutical products. *The 2006 Report* is posted on the IIPA website at www.iipa.com.

IIPA's global priority themes for 2007: IIPA has identified eight global trade priorities for 2007: (1) effective and deterrent enforcement against copyright piracy; (2) Internet piracy, electronic commerce and the WIPO Internet Treaties; (3) optical disc piracy and its effective regulation; (4) piracy by organized crime syndicates; (5) end-user piracy of business software and other copyrighted materials; (6) piracy of books and journals; (7) using FTAs to improve global standards of copyright protection and enforcement, and (8) market access for copyright products.

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USTR 2007 "SPECIAL 301" DECISIONS
IIPA 2005-2006 ESTIMATED TRADE LOSSES DUE TO COPYRIGHT PIRACY
(in millions of U.S. dollars)
and 2005-2006 ESTIMATED LEVELS OF COPYRIGHT PIRACY

	Business Software ¹				Records & Music				Motion Pictures ²				Entertainment Software ³				Books		Totals	
	Losses		Levels		Losses		Levels		Losses		Levels		Losses		Levels		Loss	Loss	Loss	Loss
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
PRIORITY WATCH LIST																				
Argentina	215.0	109.0	76%	77%	82.0	69.5	60%	60%	NA	318.0	NA	90%	NA	NA	65%	NA	4.0	4.0	301.0	500.5
Chile ³	65.0	55.0	64%	66%	29.6	22.7	44%	51%	NA	10.0	NA	35%	NA	NA	20%	NA	1.0	1.0	95.6	88.7
Egypt	47.0	45.0	63%	64%	12.0	9.0	70%	60%	NA	NA	NA	NA	NA	14.3	NA	85%	31.0	30.0	90.0	98.3
India	318.0	255.0	70%	72%	52.7	56.4	55%	57%	NA	NA	NA	29%	85.6	65.2	82%	86%	40.0	42.0	496.3	418.6
Israel	41.0	39.0	32%	32%	45.0	28.0	50%	35%	NA	61.0	NA	61%	11.4	NA	84%	95%	1.0	1.0	98.4	129.0
Lebanon (GSP)	20.0	20.0	72%	73%	2.6	3.2	60%	75%	NA	1.0	NA	1%	NA	NA	NA	NA	NA	4.0	22.6	28.2
People's Republic of China	1949.0	1554.0	82%	86%	206.0	504.4	85%	85%	NA	244.0	NA	93%	NA	589.9	NA	92%	52.0	52.0	2207.0	2944.3
Russian Federation (OCR)	1433.0	894.0	83%	83%	423.0	475.9	65%	67%	NA	266.0	NA	81%	282.1	223.9	72%	82%	42.0	42.0	2180.1	1901.8
Thailand	164.0	155.0	80%	80%	20.7	21.9	50%	45%	NA	149.0	NA	62%	NA	NA	82%	75%	35.0	30.0	219.7	355.9
Turkey	203.0	157.0	66%	65%	20.0	18.0	80%	80%	NA	29.0	NA	NA	NA	NA	NA	NA	20.0	23.0	243.0	227.0
Ukraine	290.0	131.0	85%	85%	30.0	30.0	60%	60%	NA	38.0	NA	NA	NA	NA	NA	NA	NA	NA	320.0	199.0
Venezuela	124.0	95.0	84%	82%	50.6	33.0	80%	83%	NA	30.0	NA	63%	NA	NA	NA	NA	NA	NA	174.6	158.0
WATCH LIST																				
Belarus	NA	NA	NA	NA	NA	25.0	NA	70%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	0.0	25.0
Belize	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Bolivia	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Brazil (OCR)	497.0	383.0	62%	64%	176.5	334.5	40%	52%	NA	101.0	NA	22%	159.3	120.8	88%	77%	18.0	18.0	850.8	957.3
Canada	551.0	491.0	34%	33%	NA	NA	NA	NA	NA	118.0	NA	8%	NA	NA	NA	NA	NA	NA	551.0	609.0
Colombia ³	48.0	45.0	56%	57%	62.5	47.7	71%	71%	NA	41.0	NA	75%	NA	NA	35%	NA	6.0	6.0	116.5	139.7
Costa Rica	12.0	10.0	65%	66%	15.1	18.3	60%	60%	NA	2.0	NA	100%	NA	NA	NA	NA	NA	NA	27.1	30.3
Dominican Republic	10.0	5.0	77%	77%	9.9	10.8	65%	75%	NA	3.0	NA	89%	NA	NA	NA	NA	1.0	1.0	20.9	19.8
Ecuador	16.0	9.0	68%	69%	33.0	26.3	98%	90%	NA	NA	NA	NA	NA	NA	NA	NA	2.0	2.5	51.0	37.8
Guatemala	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Hungary ³	67.0	55.0	44%	42%	20.0	12.0	50%	30%	NA	102.0	NA	73%	NA	NA	40%	30%	NA	4.0	87.0	173.0
Indonesia	156.0	153.0	85%	87%	17.2	13.8	91%	88%	NA	NA	NA	87%	NA	NA	NA	NA	32.0	32.0	205.2	198.8
Italy	716.0	812.0	50%	53%	48.0	40.0	27%	20%	NA	161.0	NA	22%	647.7	639.2	40%	30%	20.0	20.0	1431.7	1672.2
Jamaica	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Kuwait	49.0	35.0	71%	66%	9.0	8.5	70%	70%	NA	NA	NA	NA	NA	1.3	NA	82%	0.5	0.5	58.5	45.3
Lithuania	20.0	14.0	59%	57%	13.0	12.0	85%	85%	NA	NA	NA	NA	NA	1.7	NA	88%	NA	NA	33.0	27.7
Malaysia	NA	82.0	61%	60%	22.0	38.8	45%	49%	NA	NA	NA	91%	28.0	23.4	90%	91%	9.0	10.0	59.0	154.2
Mexico	296.0	263.0	63%	65%	486.6	376.5	67%	65%	NA	483.0	NA	62%	182.0	137.7	85%	75%	41.0	42.0	1005.6	1302.2
Pakistan (OCR)	20.0	26.0	84%	86%	25.0	25.0	100%	100%	NA	NA	NA	NA	NA	NA	NA	NA	55.0	55.0	100.0	106.0
Peru	27.0	22.0	70%	73%	53.5	66.0	98%	98%	NA	12.0	NA	63%	NA	NA	NA	NA	NA	9.0	80.5	109.0
Philippines ³	35.0	46.0	72%	71%	50.3	21.0	62%	40%	NA	NA	NA	78%	NA	11.3	NA	85%	49.0	48.0	134.3	126.3
Poland	264.0	202.0	58%	58%	24.0	25.0	35%	31%	NA	102.0	NA	66%	NA	NA	75%	60%	NA	5.0	288.0	334.0
Romania	66.0	61.0	69%	72%	12.0	17.0	60%	80%	NA	12.0	NA	NA	NA	NA	77%	75%	NA	2.0	78.0	92.0
Saudi Arabia	112.0	105.0	51%	52%	20.0	20.0	50%	50%	NA	95.0	NA	95%	NA	NA	NA	95%	8.0	10.0	140.0	230.0
South Korea	NA	200.0	45%	46%	0.3	1.3	7%	13%	NA	NA	NA	7%	353.5	415.1	68%	55%	45.0	43.0	398.8	659.4
Taiwan	90.0	56.0	41%	43%	16.2	21.5	28%	26%	NA	98.0	NA	51%	NA	161.9	NA	42%	18.0	18.0	124.2	355.4
Tajikistan	NA	NA	NA	NA	NA	5.0	NA	80%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	0.0	5.0
Turkmenistan	NA	NA	NA	NA	NA	7.0	NA	85%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	0.0	7.0
Uzbekistan (GSP)	NA	NA	NA	NA	NA	30.0	NA	80%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	0.0	30.0
Vietnam	40.0	21.0	88%	90%	NA	NA	95%	95%	NA	NA	NA	NA	NA	NA	NA	NA	18.0	16.0	58.0	37.0

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	Losses		Levels		Losses		Levels		Losses		Levels		Losses		Levels		Loss	Loss	Loss	Loss	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	
SPECIAL 306 MONITORING																					
Paraguay ^{3,4}	7.0	6.0	81%	83%	128.0	128.0	99%	99%	NA	2.0	NA	86%	NA	NA	98%	NA	NA	2.0	135.0	138.0	
OUT-OF-CYCLE REVIEW																					
Czech Republic (OCR)	NA	NA	NA	NA	35.0	NA	60%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	35.0	NA	
TOTALS	7968.0	6611.0			2251.3	2603.0				NA	2478.0			1749.6	2405.7			548.5	573.0	12517.4	14670.7

Endnotes:

¹BSA's 2006 statistics are preliminary. They represent the U.S. publishers' share of software piracy losses in each country, and follow the methodology compiled in the Third Annual BSA/IDC Global Software Piracy Study (May 2006), available at <http://www.bsa.org/globalstudy/>. These figures cover, in addition to business applications software, computer applications such as operating systems, consumer applications such as PC gaming, personal finance, and reference software. BSA's 2006 piracy statistics will be updated later in 2007 and will be made available on the IIPA website at such time.

²MPAA does not have 2006 statistics available at the time the IIPA's 2007 301 submission was filed in February 2007. In 2006, MPAA changed its methodology of analyzing physical (hard goods) and internet piracy, and MPAA's 2005 piracy loss statistics for a limited number countries is posted on IIPA's website.

³ESA's reported dollar figures reflect the value of pirate product present in the marketplace as distinguished from definitive industry "losses." ESA's methodology is described in Appendix B of IIPA's submission. Several piracy rate estimates included for 2006 in this report (for Chile, Colombia, Hungary and Paraguay) reflect only the piracy rate for handheld products -- which may differ from and often underestimate overall piracy levels in a given country. The value of pirate product in the market in the Philippines reflects only the value of pirate product for personal computers.

⁴Paraguay: RIAA reports that its estimated losses to the records and music industry include both domestic piracy in Paraguay and estimated losses caused by transshipment.

"GSP" means that the U.S. government is reviewing this country's IPR practices under the Generalized System of Preferences trade program.

"OCR" means out-of-cycle review to be conducted by USTR.