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February 8, 2008

Ms. Jennifer Choe Groves
Director for Intellectual Property and Innovation and
Chair of the Special 301 Committee
Office of the United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Re: Special 301 Comments on Piracy of *Nintendo* Video Game Products

Dear Ms. Choe Groves:

Nintendo of America Inc. (Nintendo) submits this letter in response to the "Request for Written Submissions From the Public" which appeared in the January 16, 2008 Federal Register. In that notice, the Office of the United States Trade Representative (USTR) requested comments pursuant to Section 182 of the Trade Act of 1974 (19 U.S.C. 2242), known as "Special 301," on "countries that deny adequate and effective protection of intellectual property rights or deny fair and equitable market access to U.S. persons who rely on intellectual property protection."

Nintendo has provided information to the International Intellectual Property Alliance (IIPA) which is included in the filing of that organization. Nintendo is associated with the IIPA through its membership in the Entertainment Software Association (ESA). This letter provides more detailed information on piracy of *Nintendo* video game products, along with Nintendo's Special 301 placement recommendations.

Nintendo, its publishers and developers are being injured by the continued manufacture, assembly, distribution, import, export and sale of counterfeit *Nintendo* video game products across the globe, resulting in approximately \$975 million in lost sales in 2007. Through Nintendo's anti-piracy efforts and cooperation of various government enforcement authorities, over 1.8 million infringing *Nintendo* products and components were seized worldwide in 2007.

Worldwide piracy of *Nintendo* video game products remains a chronic problem resulting in huge losses, despite Nintendo's anti-piracy programs in almost 50 countries. Special 301 has proven to be a highly effective tool in highlighting those countries which do not provide adequate protection of copyrights and trademarks.

Ms. Choe Groves
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For 2008, Nintendo recommends that the USTR designate: (1) China and Paraguay for monitoring under Section 306 of the Trade Act and Priority Watch List; (2) Mexico be placed on the Priority Watch List; (3) Brazil and the Republic of Korea be included on the Watch List; and (4) Hong Kong as deserving Special Mention and USTR's active monitoring. Nintendo's experience over the past year in these countries is presented below.

NINTENDO OF AMERICA INC.

Nintendo of America Inc., based in Redmond, Washington, serves as headquarters for Nintendo's operations in the Western Hemisphere and markets the highly successful line of *Nintendo* video game products. Also located on Nintendo's campus in Redmond is Nintendo Software Technology Corporation which creates game software for Nintendo's video game systems. Nintendo is the holder in the Western Hemisphere of Nintendo's intellectual property rights, including copyrights and trademarks. In addition, Nintendo coordinates the worldwide anti-piracy program on behalf of its parent company, Nintendo Co. Ltd. of Kyoto, Japan.

Nintendo video game hardware platforms (i.e. *Wii*, *Nintendo GameCube*, *Game Boy Advance* and *Nintendo DS*) play Nintendo's proprietary game software as well as games created by its third party licensees. There are over 100 U.S. companies which independently create, license, market and sell *Nintendo* video game products. The earnings of these companies are also adversely affected by worldwide piracy of these products.

NINTENDO VIDEO GAME PRODUCTS

Nintendo DS: The *Nintendo DS* is the most popular video game system on the market today. Since its release in November of 2004, Nintendo has shipped more than 64.79 million *Nintendo DS* handheld systems worldwide. In fact, approximately 24.5 million systems were shipped during the last nine months of 2007. In the U.S. alone, it is estimated that one *Nintendo DS* handheld system was sold every five seconds in 2007. In addition to the unprecedented number of handheld products shipped, approximately 330.87 million video games for the *Nintendo DS* were sold globally since its release. There are more than 500 games in the *Nintendo DS* library created by Nintendo, its licensed publishers and developers.

Wii: Not to be outdone, the *Wii* hardware console system has broken all sales expectations since its introduction in November 2006. Together the *Nintendo DS* and *Wii* finished as the No. 1 and No. 2 best-selling video game systems for 2007. More than 20.13 million *Wii* hardware consoles and 113.19 million *Wii* video games have been shipped worldwide. The consumer demand for the *Wii* continues to outstrip supply, with reports of shortages received consistently since its release. The success of

the *Wii* has benefited not only Nintendo, but also its licensed publishers and developers with more than 195 first and third party titles available for the *Wii*.

Unfortunately, the unprecedented success of both Nintendo's video game systems makes them an attractive target for the counterfeiters.

Circumvention Devices & Internet Piracy

Two types of circumvention devices have been developed targeting *Nintendo* hardware systems. One is used to circumvent the security embedded in the *Nintendo DS* and the *Game Boy Advance* handheld systems. Nintendo commonly refers to these as "game copying devices." They are used to copy video game software, without authorization, onto any type of memory device or the hard drive of a personal computer. This enables the user to make, play and distribute illegal copies of *Nintendo* video game software. These devices also allow for the uploading and downloading of illegal software to and from the Internet. Other than games offered directly via the *Wii* console, Nintendo does not distribute its game software on the Internet. Accordingly, all *Nintendo* games offered on websites and all other types of networks are illegal copies which violate the company's copyrights and trademarks.

The second type of circumvention device is called a modification chip ("mod chip"). A mod chip is soldered to the internal components of a *Nintendo* video game console. Mod chips circumvent the security embedded into Nintendo's hardware console and allow the console to run counterfeit software discs. Counterfeit *Game Cube* and *Wii* discs cannot be played unless the respective hardware console has been modified with a mod chip.

Unfortunately, as game copying devices allow for the downloading of illegal *Nintendo* software via the Internet, both the sale of the devices and Internet piracy have grown significantly in many countries around the globe. Further, as the popularity of the *Wii* system has grown exponentially, so has the availability of mod chips and counterfeit *Wii* software. Internet users are able to download illegal *Wii* software and burn the game data to an optical disc. The only way to play the disc containing the illegal content is by using a modified *Wii* hardware console. Nintendo will outline the challenges associated with Internet piracy and circumvention devices in the country summaries presented below.

BRAZIL

Pirate *Nintendo* products continue to dominate the market in Brazil, due to a number of factors, such as: (1) weak, though improving, national IP enforcement efforts; (2) the absence of meaningful deterrent criminal penalties against counterfeiters; (3) soaring levels of Internet piracy; and (4) high tariffs and taxes which greatly distinguish the cost between the pirate and legitimate goods.

Anti Piracy Actions and Results

Though the Brazilian Government reports an increased in IP enforcement efforts in 2007, such efforts did not result in greater protection of *Nintendo* products. In fact, Nintendo estimates that the piracy level for counterfeit *Nintendo* products actually increased from 75% in 2006 to roughly 85% in 2007.

Local Efforts. In 2007, Nintendo participated in 42 industry-led anti-piracy actions, versus 24 such actions in 2006. This increase is the result of the industry's aggressive push to improve the market situation in Brazil. Approximately 10,000 products infringing Nintendo's IP rights were seized during 2007 from street vendors and known markets offering a wide variety of illegal goods. In all cases, seizures were a result of complaints filed by the industry organization. To Nintendo's knowledge, police did not conduct a single action in 2007 on their own initiative pursuing counterfeit *Nintendo* products, despite the open presence of infringing games in most large cities in Brazil.

Seizures have been limited to street markets and discount shopping malls. While this can be temporarily effective, it is important to focus on more significant source targets such as warehouses and other distribution sites in order to make a lasting impact against piracy. Nintendo has seen no evidence of police surveillance or other actions which could lead to identifying the source(s) of the infringing goods.

Further, seizures are rarely followed by criminal proceedings, notwithstanding that Law no. 10.695/2003 provides that infringement of copyrights and related rights is a crime punishable with detention and/or fines. Greater penalties -- imprisonment for two to four years plus significant fines -- are afforded where reproduction of infringing goods has a profit motive.

Nintendo is aware of only one successful criminal prosecution in Brazil for IP crimes resulting in a significant penalty. Lao Kim Chong, the owner of shopping malls in São Paulo, was convicted and is currently in prison for counterfeiting, smuggling, embezzlement and tax evasion.

In 2007, 39 of the 42 seizure actions in Brazil took place in São Paulo. São Paulo has adopted a strong anti-piracy policy, and the city administration closed down discount shopping malls which openly sell counterfeit goods several times during 2007 on grounds such as lack of a license or operation permit and failure to comply with tax regulations. Although this is a positive step, shop owners reopen their stores with little impact on their business and continue to offer infringing goods.

While raids targeting retail outlets are sometimes undertaken, further investigations are not conducted and infringing goods are not traced to suppliers or the major distributors or importers. Conducting raids merely to confiscate illegal products is not enough to curtail rampant piracy. Investigations must be conducted and infringers must be held accountable for their illegal activities through strong prosecutions resulting in tough

sentences and fines. Even the occasional conviction does not bring a meaningful sentence. Under the current system, there is little to deter IP crimes in Brazil.

Federal Efforts. The Federal Police, Internal Revenue Department and Federal Highway Police all reported an increase in activities against IP crimes in 2007. While Nintendo is encouraged by the increased enforcement activity, the majority of the seized products were focused on a specific market segment. The quantities of counterfeit *Nintendo* products seized were minimal in comparison to seizures of other software piracy products such as for business software.

Particularly disappointing has been the failure of Brazilian Customs to target and seize infringing game products entering the country through Paraguay, one of the world's largest smuggling centers. The only seizure of infringing *Nintendo* products by Customs took place at the Rio Airport when a passenger was stopped attempting to enter the country with 11 counterfeit *Nintendo* products. This comes even as Brazilian Customs report a record number of seizures in 2007 at Brazilian ports. In order to have any hope of staunching the flow of counterfeits entering the country, Brazilian Customs must consistently patrol its borders to stop the flow of counterfeit products from Paraguay.

Internet Piracy

A huge challenge that has emerged for Nintendo in Brazil has been the enormous growth of Internet piracy and the availability of devices that circumvent the security in Nintendo's hardware systems. According to recent online monitoring reports, Brazil is identified as one of the top ten infringing countries in the world related to Internet piracy.

A proposal for the creation of a Cyber Crime Repression Division of the Federal Police has been awaiting consideration by the federal government since 2005. As early as 2005, there was an increase in Internet crime which justified the creation of the special division. Although the division has not been formally established, the Federal Police has a team consisting of experts, district chiefs of police and other police officers who monitor the Internet. Unfortunately, it is difficult for the Federal Police to measure growth of this kind of crime in Brazil and the team has to "informally" coordinate such efforts. Nintendo encourages the federal government to formally establish enforcement regimes that focus specifically on Internet crimes and to consider Internet piracy as a priority for the country.

Brazil has never acceded to the WIPO Copyright Treaty and has no laws to protect IP owners from the circumvention of technical protection measures nor laws holding Internet Service Providers liable for hosting infringing web sites. This poses serious challenges when addressing the growing problem of IP violations and illegal downloads available on Brazilian web sites. It is critical that laws be passed addressing these two serious shortcomings.

Trademark Registration Backlog Hinders Enforcement

In late 2006, Nintendo launched its highly acclaimed *Wii* console system. Prior to its introduction, Nintendo filed for trademark protection on the “*Wii*” mark in Brazil. Due to the enormous backlog at Brazil’s National Industrial Property Institute, it will take Nintendo 3 to 5 years to obtain protection of its already very identifiable *Wii* trademark. Counterfeit software capitalizing on the *Wii* trademark is easily found in Brazil. Obviously, this makes it commercially undesirable to invest heavily in this market, as Nintendo is unable to protect against those capitalizing on the significant success of the *Wii* trademark. Certainly this greatly hinders Nintendo’s ability to carry out an effective enforcement regime.

National Council on Piracy

The National Council on Piracy has brought needed focus on the imperative of greater intellectual property protection in Brazil, especially through the establishment of the National Piracy Fighting Plan. According to the Council’s president, the main mission for the Council in 2008 will be to initiate an educational campaign claiming it will be, “spreading all over Brazil the message that piracy is cheap and nasty, with a high underlying social cost. It is linked with organized crime, causes unemployment and does harm to developing countries like Brazil.”

It is Nintendo’s hope that these educational messages will be successful in Brazil and will lead to an overall reduction of all types of piracy, including video games. However, Nintendo believes educational efforts must be accompanied by strong government enforcement measures in order to have an appreciable impact.

High Tariffs and Taxes Constitute a Market Barrier

Brazil should be a leading market in Latin America for Nintendo but widespread piracy saps the market potential. One reason for the attractiveness of counterfeit products in Brazil is the extraordinarily high cost of authentic goods due to the high tariffs and taxes imposed on imported authentic video game products.

Taxes and tariffs constitute a tremendous barrier to market entry by pricing legitimate goods out of reach for most consumers. For example, Nintendo’s *Wii* video game console has a manufacturer’s suggested retail price in the U.S. of approximately \$250 but sells for the equivalent of \$1115 in Brazil because of high tariffs and taxes. The specific taxes and tariffs imposed on Nintendo imports were listed in Nintendo’s 2006 and 2007 Special 301 comments.

Similarly, an authentic *Nintendo DS* game is sold for the equivalent of \$80 while the counterfeit game sells for the equivalent of \$7 – less than one-tenth the cost of the authentic product. Brazil’s complex tax scheme makes the price of *Nintendo* video games the highest in the hemisphere. The current tax structure prevents companies such as Nintendo from and providing a reasonably priced alternative to pirated products and developing a market presence.

Recommendations

Nintendo is encouraged by some steps taken by the Brazilian Government in 2007, but piracy levels remain very high. Following are suggested recommendations to improve IPR enforcement in Brazil:

- Eliminate the backlog at Brazil's National Industrial Property Institute and develop procedures which facilitate the issuance of trademarks. The current trademark registration process is unacceptable and prevents IP owners from investing in the Brazilian market.
- Improve coordination between federal, state and municipal authorities in pursuing IP crimes.
- Increase the number and sophistication of border controls and customs inspections, especially at the Brazil-Paraguay border. Customs seizures would have a stronger impact if cases were referred to the appropriate authorities for criminal prosecution.
- Develop greater judicial awareness of the effect of IP crimes on national and economic interests through training and education, with the goal of producing more deterrent sentences for IP crimes.
- Adopt new laws to protect against the circumvention of technical protection measures and to hold Internet Service Providers liable and require them to take down infringing content.
- Alter the current tax and duty structure to encourage the growth of the video game industry. If a legitimate video game market is to develop, the Brazilian Government must adopt an appropriate tax and duty scheme to allow for the import of authentic video game products. High tax rates on products, including video games, encourage piracy and counterfeiting rather than stimulating the national economy.

PEOPLES' REPUBLIC OF CHINA

Throughout 2007, China remained the international production center of infringing *Nintendo* video game products. China is clearly the leading production site, has the largest domestic consumption of these illicit products, and is the leading worldwide exporter of counterfeit *Nintendo* video game products. As a result, Nintendo recommends that China remain on the Priority Watch List and subject to Section 306 monitoring.

Anti-Piracy Actions

Over a million infringing *Nintendo* items were seized in China during the year. Customs authorities in 14 countries around the globe seized over 386,000 counterfeit *Nintendo* video game products originating in China which is four times more than the products seized in 2006. Unfortunately, this is not a surprise with the popularity of Nintendo's latest hardware system, the *Wii*. Counterfeit *Wii* software discs are being manufactured in China and are rapidly being distributed at an alarming rate to markets around the world. In fact, Nintendo seized over 584,000 counterfeit *Wii* software discs in China during the last nine months of the year. While many products are shipped directly from Chinese ports, Hong Kong is perhaps the single largest transshipment point for counterfeits manufactured in China.

Nintendo focused its anti-piracy activities in Guangdong Province. Guangdong Province is the home to countless factories and wholesalers producing and distributing mass quantities of counterfeit *Nintendo* software. Based upon complaints filed by Nintendo, a total of 69 factories, warehouses and retail operations in the Province were raided by Chinese administrative authorities in 2007, including the local Administration for Industry & Commerce (AIC), Technical Supervision Bureaus (TSB) and the Guangzhou City Culture Market Composition Administrative Enforcement Agency (CMCA). Even though a million infringing *Nintendo* products were seized in China in 2007, not a single criminal prosecution was pursued by the authorities.

Criminal Cases

Nintendo continues to be frustrated by the Chinese enforcement authorities' failure to pursue infringers through the criminal justice system. During the year, 69 raid actions involving counterfeit *Nintendo* products were conducted, but not a single action was initiated or prosecuted by Chinese criminal enforcement authorities. Many of these actions involved willful commercial-scale infringement. For example, on June 13, 2007 acting upon Nintendo's request, Guangzhou TSB officials in the Haizhu Branch raided a workshop confiscating 247,000 counterfeit *Game Boy Advance* products and components. Subsequently, the illicit goods were transferred to the TSB office pending destruction; however, the counterfeiter received no monetary penalty. Moreover, the case was never transferred to the Public Security Bureau (PSB) for criminal prosecution.

While there were no criminal prosecutions in China during the year, criminal actions were initiated in 20 countries worldwide involving far smaller amounts of counterfeit *Nintendo* products. For instance, a Turkish court sentenced a store owner to pay a fine of approximately \$17,300 USD after the local police seized only 11 counterfeit *Game Boy Advance* products from the store. In another example, a Taiwanese court sentenced a woman to 14 months in prison for selling counterfeit *Nintendo* products after the Taiwanese police raided her shop and seized approximately 700 fake *Nintendo* games.

Imprisonment and stiff fines serve as strong deterrents to counterfeiters. China must pursue infringers through criminal prosecutions in order to achieve a reduction in counterfeiting. China is totally out of step with the rest of the world in dealing with these IP crimes.

Chinese Customs

Counterfeit *Nintendo* products continue to flow freely out of China and into the global market place. Chinese Customs have failed to vigorously target and inspect items exported from Guangdong Province. During the year, customs authorities in 14 other countries seized pirate *Nintendo* products originating from China; however, only three very small shipments were seized by Chinese Customs this year. This is a slight improvement over 2006, whereby not one seizure was conducted by the Chinese Customs authorities.

Continuing Enforcement Obstacles and Recommendations

Problems in effective enforcement of IP rights in China are well known and common to rights owners. They did not change significantly in 2007 and remain as follows:

- Not a single administrative penalty decision was reported in 2007 despite over a million counterfeit *Nintendo* products seized. Significant administrative fines consistently imposed on counterfeiters would help to financially impact the production and distribution of the illegal products.
- The methodology used for placing a value on seized articles is seriously flawed. China's local Price Evaluation Bureau (PEB) authorities use the price of the counterfeit item, or the price provided by the infringer, to calculate the value of the infringing goods. As a result, the value placed on the infringing products is quite low and the criminal threshold is seldom ever met.
- In order to avoid punishment, many counterfeiters are sophisticated enough to keep stock levels below the criminal threshold and not keep sales records. They keep components on hand and then quickly assemble and ship finished products immediately after the infringing products are assembled. To overcome this loophole, the method of valuation must include the value of all finished and partially assembled products and infringing components. These components often present the best evidence of the scale of the illegal operation.
- Even when the criminal thresholds are met, some cases are not accepted by the Public Security Bureau (PSB) because the PSB is not satisfied with the evidence provided by the administrative authorities. Since the beginning of 2002, nearly 380 raids have been conducted targeting factories, warehouse and retail outlets in China. During that time, the local administrative authorities have only successfully transferred three cases to the PSB for criminal prosecution. Only one resulted in a conviction. In addition to the PSB, Chinese administrative

agencies must be granted the authority to transfer cases to the People Procurator for further prosecution.

- Major criminal organizations operate well-developed and protected distribution networks in China, with close connections to Hong Kong and Taiwan. China, Hong Kong and Taiwan do not work together to investigate and pursue these organizations. Indicted criminals can flee from China and successfully escape justice. These operations are so tightly organized that only the Chinese Government can stop the illegal activities.
- Despite the flow of tens of millions of counterfeits from China which were distributed globally, Chinese Customs has seized only three very small shipments of counterfeit *Nintendo* video games in the past three years. All of these seizures were conducted in 2007. Chinese Customs has weak inspection procedures and they need additional resources devoted to pursuing intellectual property crimes. Customs must develop the means to deal effectively with false documentation of shipments which makes tracking down criminals virtually impossible. Inspectors must continually be trained on how to identify infringing goods. Further, customs needs to be better integrated into China's administrative and criminal justice systems so significant penalties can be imposed. Penalties must be high enough to serve as a deterrent and procedures must be implemented to allow for cases to be easily transferred to the criminal authorities for prosecution.

China must continue to educate its judicial and enforcement personnel as well as the general public that piracy is a serious crime. The Government should also continue to conduct its campaigns to urge consumers to buy legitimate products and report piracy to local enforcement authorities.

HONG KONG

Hong Kong is the home to one of the busiest container ports in the world. All vessels entering or leaving the waters of Hong Kong are subject to customs inspections. It is no wonder that Hong Kong serves as a major transshipment point for pirated *Nintendo* video games originating in China, destined for other Asian countries, as well as the U.S., Europe and Latin America.

In 2007, over 38,000 counterfeit *Nintendo* products exported from Hong Kong were confiscated by authorities in the Czech Republic, Germany, Netherlands, Korea Taiwan, and the U.S. These shipments included over 18,000 counterfeit *Wii* software discs. The majority, if not all of these products were manufactured in China and illegally exported without detection by Chinese or Hong Kong border authorities. To date, Nintendo is not

aware of a single seizure conducted in 2007 by Hong Kong border authorities of fake *Nintendo* products despite the flow of goods being imported into and exported from Hong Kong. A significant amount of infringing video game products are hand-carried into Hong Kong and thereafter sent by air from Hong Kong to other countries. Nintendo suggests that Hong Kong Customs make more of an effort to check for infringing products at the mainland China/Hong Kong border and to trace where these products are being sent after entering Hong Kong. Hong Kong's failure to sufficiently police its borders is seriously impacting Nintendo's ability to distribute authentic video game products globally.

On a positive note, Nintendo is pleased that the Hong Kong Customs authorities ramped up its efforts against retailers. They almost doubled the number of counterfeit *Nintendo* products seized from retail stores in 2007, compared to 2006. In 2007, Hong Kong Customs authorities seized over 87,000 items, while in 2006 they gathered approximately 46,000 fake *Nintendo* games. Nintendo appreciates the enforcement efforts of Hong Kong Customs in reducing the availability of counterfeit *Nintendo* products at the retail level.

Circumvention Devices

Hong Kong serves as the leading distribution center of game copying devices worldwide. While Nintendo has been active in initiating a civil action against a major factory producing the illegal devices, investigations in other parts of the world (France, Germany and Korea) have turned up evidence reflecting the global scale of the operation.

This is not the first action of its kind in Hong Kong whereby Nintendo pursued game copying devices. In 2003, Nintendo obtained a judgment against Lik Sang International Limited and its directors for their sales of *Game Boy* copying devices through their website lik-sang.com. The Hong Kong Court awarded Nintendo over US\$5 million in damages. Except for a small sum of money which was frozen pursuant to a court order at the initial stage of the action, the judgment could not be collected from the defendants. The case had no long term perceptible impact on the sale of similar devices in Hong Kong.

The Copyright Amendment Ordinance

Nintendo believes the proposed Copyright Amendment Ordinance of 2007 would be an effective tool to combat circumvention devices, such as the game copying devices and modification chips that pose a threat to the security embedded in Nintendo's hardware systems (*Game Boy Advance, Nintendo DS and Wii*).

The Ordinance introduces a number of changes to Hong Kong copyright laws. Notably, it would impose civil liability against the circumvention of effective technological measures as well as criminal and civil liability against the dealing in devices and the offering of services designed to circumvent effective technological measures.

Ms. Choe Groves
Office of the United States Trade Representative
February 8, 2008

This is the first time that Hong Kong has introduced criminal provisions enabling Hong Kong Customs to stop the distribution of circumvention devices. Under the proposed Ordinance, persons who make, sell, offer for sale, export, and/or import such devices, products, components may be subject to criminal action by Hong Kong Customs. Anyone using or dealing with such devices would be subject to this new law if the devices:

- (a) promote, advertise or are marketed for the purpose of circumventing a technological protection measure;
- (b) have only a limited commercially significant purpose or use other than to circumvent the technological protection measure; or
- (c) are primarily designed, produced or adapted for the purpose of enabling or facilitating the circumvention of the technical protection measure.

Nintendo has made use of existing Hong Kong civil proceedings to stop the sale of circumvention devices. When the new law becomes effective, Customs will be empowered to seize the devices and initiate criminal prosecutions in an effort to stop the domestic sale and export.

Nintendo is quite pleased with this development and is anxious for the enactment of this new legislation. However, it also recognizes that the Copyright (Amendment) Ordinance also introduces a large number of exceptions which allow the dealing in circumvention devices in certain circumstances.

Examples of the exemptions include devices that allow: (1) research into cryptography; (2) analysis for achieving interoperability between different computer programs; (3) testing for security flaws of a computer system; (4) the disabling of any function which collects or disseminates personally identifying information which tracks and records the manner of a person's use of a computer network; and (5) overcoming regional coding that prevents or restricts access to a work for the purpose of controlling market segmentation on a geographical basis.

While most of these exceptions are not objectionable in nature, the large number does create opportunities for defendants to adopt these defenses thereby making criminal prosecution and civil litigation more difficult and time consuming.

Nintendo is eager for the enactment of the new Ordinance; but, understands that the sections relating to circumvention devices will not become effective until published in the Gazette by the Secretary of Commerce and Economic Development (CED). Nintendo appreciates that the Hong Kong Government has taken the initiative by placing posters at retail establishments to educate consumers and retailers of the new

Ordinance. Nintendo urges that CED to publish the Ordinance in the Gazette expediently to officially enact the law.

Recommendations

Following are suggested steps which could improve IP protection in Hong Kong:

- Allocate substantially greater financial resources towards monitoring the import and export of infringing goods, including *Nintendo* video game products. Goods entering Hong Kong from China require special attention.
- Take measures to prevent importers and exporters from falsifying contact information on shipping documentation. Exported products shipped with false documentation are a common problem that prohibits customs authorities from investigating the source of suspect shipments.
- Establish more cooperation with Chinese enforcement authorities to curtail the flow of counterfeit *Nintendo* products made in China for international export.
- Urge the CED to publish the Copyright Amendment Ordinance 2007 and enact the law immediately.
- Continue enforcement efforts against retail outlets and street markets with raids and seizures, followed by arrests, prosecutions and deterrent sentences.
- Secure convictions against business and business owners/ managers/ directors that are exporting or selling counterfeit *Nintendo* video game products.
- Investigate upstream suppliers, distribution channels and syndicates engaged in piracy operations.

REPUBLIC OF KOREA

The gaming industry in Korea is growing and has the potential to be a significant market for *Nintendo* products. Since the establishment of Nintendo Korea in 2006, Nintendo has invested heavily in the market by working closely with local game development studios and localizing *Nintendo* games for its Korean customers. The country ranks as one of the top countries in the world for its high broadband penetration. Sadly, the broadband capabilities also results in massive Internet piracy that stifles the sale of legitimate *Nintendo* video game products.

Internet Piracy

Nintendo Korea was successful in launching the popular *Nintendo DS* handheld system

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Office of the United States Trade Representative
February 8, 2008

in July, 2006. *Nintendo DS* software is distributed only in a plastic housed proprietary game card that is inserted into *Nintendo DS* hardware. Nintendo does not make any of its video game software available for download, unless purchased via the *Wii* console for play on the system. All *Nintendo* game files offered via the Internet are illegal copies of Nintendo's protected work. Unfortunately, Internet piracy is greatly impacting Nintendo's Korean investment. For example, within a short period of time after the release of an authentic game called *Final Fantasy CC* in Korea, Nintendo was able to detect that the game was uploaded on the Internet and subsequently downloaded and/or transmitted over 100,000 times via Korean networks.

Over 98% of pirated *Nintendo* game files shared on the Internet in Korea are through networks called web-hard services. The web-hard networks are popular Korean online service providers (OSP). The web-hard services are closed online file-sharing networks that enable its users to store and transmit large files in a password protected environment. The OSP provides the member with the password. There are numerous community websites contained within the web-hard service networks called "Internet clubs." There are Internet clubs established to focus on particular types of files. In fact, there are Internet clubs that are dedicated to the unlawful file-exchange of illegal *Nintendo DS* and *Wii* games.

The OSPs promote the uploading and downloading of illegal content. The member is granted points or "cybercash" by the OSP each time it uploads any file. The more content uploaded, the more points or "cybercash" the member earns. The member can use its points or cybercash when downloading content within the networked community. The member can also purchase tangible commodities such as gift certificates or electronic products through the Internet shopping malls contained with the web-hard service network. This business structure clearly promotes members to upload materials by sharing profits earned from other members who download materials from the website. To initiate membership within the web-hard service network, users must pay the OSP for points or cybercash. Certainly, the OSPs are profiting from the illegal activity and have no incentive to proactively terminate the illegal content found within their networks.

In 2007, Nintendo issued numerous letters to OSPs and provided them with evidence of intellectual property violations and requested them to block the transmission of thousands of infringing *Nintendo* game files. Initially, the OSPs responded favorably to the notices and agreed to stop the reproduction and distribution of infringing *Nintendo* game files. The OSPs agreed to filter their content by using key words, provided by Nintendo, to proactively terminate illegal game files and memberships of those uploading the illegal content. Despite the fact that Nintendo provided the OSPs with key words enabling them to identify infringing software, there was an increase of the availability of *Nintendo* game files freely shared via the Internet clubs. As a result of this non-compliance, it was necessary for Nintendo to seek relief through the criminal judicial system. In September 2007, Nintendo filed a criminal complaint with the Seoul Prosecutor's Office against two OSPs and four individuals involved in the uploading of

illegal *Nintendo* game files. It has been close to 5 months since the criminal complaint was filed and the matter still remains in the investigative stage. The slow criminal process is benefiting those profiting from the illegal content shared over the Internet. Meanwhile it is damaging Nintendo's ability to benefit from its investment in the Korean market.

Circumvention Devices

The availability of circumvention devices, such as game copying devices for the *Nintendo DS*, and mod chips for the *Wii* hardware console, has become a serious problem in Korea. These devices are prevalent and readily available on the Internet and at the retail level.

Nine shipments containing over 4,100 game copying devices, including the most popular product called the R4, were detained by Korean Customs in the last five months alone. Nintendo applauds the inspections conducted by Korean Customs and by detention of these circumvention devices.

In August 2007, after posting a sizable bond to have 300 R4 devices seized that originated from Hong Kong, Nintendo filed a criminal complaint with the Seoul Central Prosecutor's Office against an importer. Despite the fact that such devices are prohibited under the Computer Program Protection Act, the prosecutor is reluctant to indict the importer claiming the importer may lack criminal intent. Information on the R4 device has been blatantly marketed and advertised on the Internet, as well as published in local newspapers, as a tool to play infringing *Nintendo* games downloaded from the Internet. It is hard to believe that anyone importing, selling or using the R4 device is doing so without knowledge of its infringing use. It has been over 6 months since Nintendo filed its complaint. The prosecutor is not only delaying the resolution of this case, but other Customs detentions. Korean Customs is awaiting the prosecutors' decision to determine the sanctions to impose against the other eight importers of the illegal devices.

New Copyright Act

The Korean National Assembly passed a new Copyright Act in December 2006, and it was enacted in June 2007. The new Act introduces a number of positive provisions to the copyright law that strengthen enforcement options in combating Internet piracy. Such provisions include:

1. Ex officio criminal prosecutions for copyright infringement where an infringement is for profit. The Korean Government authorities have the ability to conduct seizures and pursue criminal prosecutions without a formal request made by the copyright holder.
2. The OSPs are obligated to terminate access to infringing materials "immediately", rather than "without delay" when requested by right holders.

3. The Ministry of Culture and Tourism is authorized to issue ex officio take down notices directly to OSPs or infringers. If the OSPs or infringers fail to comply with the take down notices, they are subject to criminal sanctions and fines equal to approximately \$11,000 USD.
4. A Presidential Decree, a provision under the Copyright Act, subjects the OSPs to criminal penalties (fine of approximately \$33,000 USD) for failing to take the "necessary measures" as outlined in the law. Such measures include: (1) the OSP must implement technical measures to identify the copyrighted work on its network such as by using a key word search program or a fingerprinting technology; (2) once identified, the OSP must search and block the further transmission of infringing files; and (3) the OSP must send a warning notice to the individual who is unlawfully transmitting the infringing materials, demanding the individual cease and desist from the infringing activity.

Nintendo urges the Korean Government to begin enforcing the new Copyright Act. The Korean enforcement agencies must take all necessary steps to curtail the growing Internet piracy problem that is hindering the growth of the legitimate video game industry in the country.

Korea-US Free Trade Agreement

The U.S. and Korea signed the Free Trade Agreement (FTA) on June 30, 2007. The provisions set forth in the FTA place stronger burdens on the OSPs and provide adequate legal remedies against the circumvention of effective technological protection measures.

Article 18.10.30 of the FTA commits the Korean Government to provide legal incentives for OSPs to cooperate with right owners in deterring the unauthorized storage and transmission of copyrighted materials. It further clarifies that the OSPs are held liable for referring, linking, routing, or providing connections to infringing materials.

In a side letter to the FTA, Korea also agreed to adopt procedures making it easier for IP owners to report multiple infringements to OSPs. It is adequate for the IP owner to provide a representative list of infringing materials to the OSP in one notification. The OSPs are obligated to disable the transmission of all of the infringing material posted on the system or network.

Nintendo is very pleased with Article 10.4.7 of the FTA. The Article requires the Korean Government to enact legislation prohibiting the manufacturing, sale and use of devices that have a limited commercially significant purpose other than to circumvent effective technological measures.

Nintendo believes the U.S. Korea FTA will provide much greater protection of U.S.

rights holders in Korea and strongly supports its adoption by both countries in 2008. Adoption and implementation of the FTA would be a significant start to combating piracy in Korea.

Recommendations

Following are suggested steps which could improve IP protection in Korea:

- Effectively enforce the new provisions set forth in the new Copyright Act in an effort to curtail massive Internet piracy.
- Urge the OSPs to gather and maintain legitimate contact information for all of their users. Once infringement activities occur, the OSPs must be obligated to disclose the identity of the infringer to the IP owner.
- Provide training to enforcement officials, including prosecutors, on Internet piracy and technical protection measures (circumvention devices). The enforcement authorities must secure convictions against OSPs and those who upload illegal content who are facilitating file sharing and piracy of *Nintendo* games. Absent any convictions, there will not be any deterrents against the significant Internet piracy problems in Korea.
- Allocate substantially greater resources to the Ministry of Culture and Tourism for conducting investigations of Internet infringements.
- Continue enforcement efforts to curtail the importation of the circumvention devices and impose deterrent sanctions against the importers.
- Initiate raids and seizures against importers, Internet sellers, distributors, retail outlets and street markets offering circumvention devices for sale, followed by arrests, prosecutions and deterrent sentences.

MEXICO

Mexico is Nintendo's largest market in Latin America but high piracy rates greatly undercut Nintendo's ability to market and distribute authentic products in the country. Significant obstacles in conducting enforcement actions permeate the Mexican system, especially structural problems and the role of organized crime and the constant threat of violence. Violence continues to escalate and be a real threat in conducting enforcement actions.

Pirate products will continue to saturate the Mexican market until efforts are taken at the borders to prevent the entry of illegal goods. Criminals are taking advantage of

ineffective border enforcement to build major assembly operations for pirated *Nintendo* video game products in Mexico. Despite increased raid activity made by the Federal Government (PGR), there has been no impact on the piracy problem. Piracy levels remain untouched due to the lack of prosecutions which result in deterrent penalties. Nintendo therefore recommends that Mexico be included on the Priority Watch List.

Anti-Piracy Actions

During 2007, seven raids were conducted in various markets throughout Mexico which resulted in the seizure of over 141,000 counterfeit *Nintendo* video game products. We have provided some highlights of a few of the activities that took place over the past year:

- San Juan de Dios is a well known market in Guadalajara City. It is famous for selling all kinds of goods including significant quantities of counterfeit products of many brands. In April, acting on a criminal complaint filed with the Attorney General's Office twenty booths selling counterfeit *Nintendo* video games were raided and 56,000 counterfeit *Nintendo* products were seized. Some of these booths were openly installing mod chips to the *Nintendo* consoles. Unfortunately, it took approximately 20 days for the search warrant to be issued, causing the opportunity for leaks and delays in the action.
- La Fayuca marketplace is also in Guadalajara City. "Fayuca" is a slang Mexican word used for contraband products and this market is full of them. This raid in August involved 11 booths and the seizure of 11,900 counterfeit *Nintendo* games. It should be noted that the criminal complaint was filed with the Specialized Unit of the AGO's office in April; however, it took until August for the raid actions to actually take place.
- Pericoapa is a Mexico City market place where consumers with mid to high incomes purchase both genuine and counterfeit entertainment software. Nintendo participated in two raids conducted in the Pericoapa bazaar. In two actions performed on behalf of the Entertainment Software Association (ESA), approximately 3,500 fake *Nintendo* products were seized and a total of 100,000 video games for the industry.
- Violence erupted during actions conducted in Plaza Meave in 2007. Two industry-led actions were initiated against the sellers distributing in Plaza Meave. Twenty four booths were raided and a total of 20,250 products were confiscated. The second action was performed against some warehouses related to the Meave sellers. Approximately 64,000 counterfeit *Nintendo* products were seized. Seventy booth owners were angered by the raids and reacted violently. For approximately 30 minutes, there were violent confrontations between police personnel, booth owners and neighbors. Several individuals were injured during this incident. Several police officers were taken by ambulance to local hospitals

for their injuries.

Assembly Underway in Mexico

In the past several years, Nintendo has reported on U.S. Customs seizures in which significant quantities of counterfeit *Nintendo* components were shipped from Asia with a final destination of Mexico. The counterfeit products destined for Mexico indicate that major assembly operations are underway. Based on the raids conducted in Mexico and the shipments stopped by U.S. Customs in 2007, Mexican counterfeiters continue to have strong connections to Asian factories producing fake components.

In January 2007, U.S. Customs (Miami) officials seized 680 counterfeit *Game Boy Advance* cartridges coming from China and destined for a Mexican importer. The same Mexican importer has been identified in a previous U.S. Customs seizure involving approximately 19,000 counterfeit *Game Boy Advance* components originating in Asia. Despite efforts to flag the importer as a repeat offender as well as Nintendo's intensive investigative efforts, the importer was never found due to false and/or untraceable records.

In February 2007, Belgian Customs stopped a shipment of approximately 11,000 counterfeit *Game Boy Advance* components coming from China with a final destination of Mexico. The counterfeit *Nintendo* products were being transshipped through Luxemburg in an attempt to mislead customs authorities. Investigations failed to find any data about the existence or commercial activity of the Mexican import company.

Another significant seizure of counterfeit *Nintendo* components was conducted by U.S. Customs (Long Beach) in July 2007. The shipment consisted of 5,400 counterfeit *Game Boy Advance* components coming from Hong Kong and destined for Mexico. Unfortunately, the investigations against the Mexico importer were unsuccessful due to falsified documents.

In 2007, Mexican Customs conducted two seizures against counterfeit *Nintendo* products entering the country. In July, over 5,400 counterfeit *Game Boy Advance* components and cartridges originating from China were seized. The Mexican company was identified as an importer of wood and fabric and investigations did not find any evidence of the company's involvement with video games or counterfeit products. In August, Manzanillo Customs seized approximately 700 counterfeit *Game Boy Advance* cartridges and packaging. Again, the Mexican importer was never identified.

Nintendo's experience with Mexican importers shows a common pattern where companies are simply invented and fake information is provided in order to import counterfeit goods. Pirates use customs brokers to avoid detection by authorities when importing counterfeit products. At present, customs brokers have no responsibility for the role they serve as "middle men" for counterfeit transactions and thus avoid being directly linked to infringers. Customs brokers must be held accountable for ultimately

concealing criminal identities and for managing counterfeit shipments that cross Mexican borders.

Mexico Customs

Even though U.S., Mexican and Belgian Customs blocked significant quantities of counterfeit *Nintendo* components from entering Mexico in 2007, Nintendo believes it is only a fraction of the amount of counterfeit products that flow freely into the country. Infringers effortlessly import counterfeit *Nintendo* components and products into Mexico and establish assembly operations in well-known markets. Counterfeit *Nintendo* products are widely available at informal markets and through local street vendors.

Mexican Customs appear to have no policies or controls in place to curb the smuggling of counterfeit components or products into the country. Customs authorities must aggressively screen, target and inspect consignments in an attempt to limit the high volume of counterfeit goods entering Mexico. In particular, mandatory screening protocols must be established to target all suspect consignments that fall within the scope of products known to have high piracy rates in Mexico.

Customs officials report that even if they attempt to seize counterfeit products, they have no secure storage facilities to retain the confiscated goods. In addition, there is no formal procedure in place for effectively retaining the products while the case is pending, nor is there a process in place for disposing of the goods when the matter has been resolved. This places the burden on the IP owners to pay for the storage of the seized goods. In many instances, the IP owners are stuck paying for a long period of time as these cases can remain pending for years. This is ineffective for both Mexican Customs and the IP owners.

Trademark owners have been pushing Mexican Customs to establish a formal recordation process, whereby all registered trademarks can be recorded in a central registry. The establishment of the central registry of trademarks would facilitate Customs' ability to contact the IP owner to verify a suspect shipment. This would also enable Customs to notify the IP owner in a timely manner, as outlined in its regulations, to avoid having to release the products into circulation.

Enforcement Obstacles

Due to the widespread availability of counterfeit *Nintendo* video game products in popular shopping areas of Mexico City and Guadalajara, criminal actions were planned throughout 2007. Unfortunately, police actions provoked rioting by stall owners, causing dangerous conditions for enforcement authorities. This serious obstacle risks the safety of police and local representatives as well as requiring more and more resources and police officers to conduct safe and effective raids. The continuing rise in violence at the Mexican borders and by organized crime triggers the Mexican Government to send large numbers of police officers to restore order in areas plagued by drugs and violence. This in turn reduces the police strength in the capital.

Ms. Choe Groves
Office of the United States Trade Representative
February 8, 2008

In addition to hard goods piracy of Nintendo products, Mexico has an increased problem with circumvention devices such as mod chips and game copier devices. Many popular shopping areas openly modify video game consoles with mod chips that bypass technological protection measures and enable consumers to play counterfeit software. Vendors openly modify video game consoles while offering counterfeit *Nintendo* software to consumers in the public markets. Currently, a person is only liable under Mexican criminal laws if manufacturing of mod chips is taking place within the country. It must also be proven that the device is created to circumvent security measures to enable playing pirate games. Mexican criminal laws do not prohibit the distribution and sale of circumvention devices and software, hindering the ability to conduct enforcement actions.

Challenges to conducting effective enforcement of IP rights in Mexico continued in 2007 as follows:

Mexican Industrial Property Institute (IMPI). Though administrative enforcement through IMPI can produce results, there are major challenges in the system. IMPI actions are merely “inspections” whereby infringing products can be seized. IMPI inspections conducted at informal markets are extremely risky due to the potential for violence. Inspection actions must be carefully planned and involve hundreds of security personnel to deter violence. This can bring long delays in conducting the actions and leads to leaks which alert criminals to the raids. Accordingly, IMPI’s results are insignificant.

When IMPI seizes counterfeit products, it can take years to issue a final decision. Meanwhile the infringers continue their illegal distribution at alternate locations. IMPI’s actions have had little impact on the market and certainly do not serve as deterrence against piracy.

There is no process in place for dealing with seized counterfeit products. IMPI does not have secure storage facilities nor the financial resources to handle large quantities of products. As a result the burden of securing counterfeit products is placed on the IP owner. As IMPI is slow to decide on actions, often this is an expensive burden on the IP owner.

In addition, injunctive relief issued against infringers is rarely enforced by IMPI and the orders are consistently challenged before Federal Courts. There are constant disputes about IMPI’s procedures on the applicability of the Federal Law on Administrative Procedures between the Judicial Federal Courts and the Fiscal and Administrative Tribunal.

Attorney General's Office. There are several limitations on the ability of the Attorney General to protect intellectual property rights. Prosecutors in general have little

knowledge of intellectual property laws. "Experts" within the Attorney General's Office have limited ability to analyze counterfeit products. The procedural requirements one must follow when filing a criminal complaint with the Attorney General's Office are extremely formal and cumbersome. As there is no priority placed on pursuing IP crimes, it currently takes approximately one to two months to obtain a search warrant. Currently, the IP owner provides the prosecutor with the evidence necessary to persuade the Penal Judge to grant a warrant. Unfortunately, the prosecutor can sit on the evidence for long periods of time delaying the issuance of the search warrants. Certainly this practice is a clear example of the lack of attention placed on conducting anti-piracy actions. To be effective, once evidence is received the prosecutors must act quickly to request the Penal Judge to issue the search warrants.

The Mexican Government created a specialized unit (UEIDDAPI) in an effort to use experienced prosecutors to pursue intellectual property crimes. Unfortunately, this appears to be only a gesture of goodwill. Prosecutors assigned to this organization still lack knowledge of intellectual property laws. Furthermore, it can take more time to do a raid through the Specialized Unit than filing a complaint with the regional Attorney General's Office.

Attempts are being made to change the criminal law and allow prosecutors to act *ex officio*. Many cases uncover counterfeit products but prosecutors are not authorized to seize the counterfeit goods if they do not have a complaint filed by the IP rights owner. In principle this is a very beneficial change, but Nintendo is concerned that should criminal actions change from "*ex parte*" actions to "*ex officio*" actions, incidents of extortion and corruption will increase. Due to the prosecutors' lack of knowledge of both intellectual property laws and identification of counterfeit products, there are concerns that legitimate products will be seized, criminal cases will be severely impaired and it could increase the level of corruption. Transition to an *ex officio* regime must consider these potential difficulties.

Federal Preventive Police (FPP). Weaknesses also exist within the FPP. As an example, police have little knowledge of intellectual property laws. All actions taken by the FPP must first involve IMPI, the Attorney General's Office or any other authority such as the Department of Treasury. Although they can be effective, this procedural hurdle results in significant delays in FPP actions. There are power disputes between the FPP and the Attorney General's Office, as well as with IMPI, which detract from any meaningful enforcement activities.

Mexican Court Systems. There are significant problems found within the Mexican Court systems which impair effective enforcement of IP rights. Nintendo's 19 year effort to gain exclusive rights to the *Game Boy* mark in Mexico stands as a prominent example.

Courts give a low priority to IP cases, so final resolutions are very slow in being reached. During the long pendency of these cases, counterfeiters go unpunished and

continue to sell infringing goods. The Administrative, Penal and Civil Courts are all generally unfamiliar with intellectual property laws, resulting in poor and inconsistent decisions related to IP matters. Certainly, the Federal Tribunal of Fiscal and Administrative Justice are knowledgeable when dealing with tax, land and social security issues, but are lacking an understanding on how to resolve IP related crimes. Accordingly, the decisions of the Federal Tribunal of Fiscal and Administrative Justice are extremely slow in being reached (often more than 12 months) and are certainly weak. They do nothing to stop counterfeiters from conducting their illegal activities. This practice certainly discourages IP owners from enforcing rights in Mexico. A specialized IP Tribunal must be created to resolve IP matters and review IMPI decisions.

The Mexican Supreme Court of Justice has decided that damages can only be collected when administrative procedures are finally decided by the Mexican Federal Courts. This reasoning is inconsistent with Mexican IP laws and ultimately prevents IP owners from properly enforcing their rights in Mexico.

Security and Partnership for Prosperity in North America (SPP)

Nintendo applauds the position taken by the Mexican Government on its involvement in the SPP. It appears the Mexican Government is placing serious attention to the trilateral initiative between the U.S., Mexico and Canada. Nintendo recognizes that an IPR “action strategy” was compiled and presented at the April 2007 SPP Summit held in Mexico, whereby 3 main action items were identified:

- Detecting and deterring trade in pirated and counterfeit goods;
- Public awareness; and
- Measuring piracy and counterfeiting.

Nintendo is highly supportive of this initiative but would like to see real results originating from the SPP before commenting further.

Anti-Counterfeiting Trade Agreement (ACTA)

Mexico has been a supporter of the ACTA multilateral IPR initiative. In October 2007, the U.S. and some of its key trading partners (including Mexico) announced that they will seek to negotiate an Anti-Counterfeiting Trade Agreement. Mexico wants to promote the ACTA in an effort to put in place a better framework for IPR protection and enforcement. While this is a positive development and a step in the right direction, certainly Mexico does not have to wait for the ACTA to start taking the appropriate measures to enforce intellectual property within its own country. A better framework within Mexico for better IPR protection is long overdue.

Trademark Dispute

Nintendo’s trademark dispute in Mexico, now in its 19th year, over full rights to the famous *Game Boy* trademark was not resolved during 2007. Specific details of the

Ms. Choe Groves
Office of the United States Trade Representative
February 8, 2008

dispute have been outlined in Nintendo's Special 301 submissions from 2002 – 2007. It is also the subject of a trade complaint filed with the Department of Commerce in November, 2001, which remains pending.

In summary, Grupo Von Haucke (GVH), a company owned by Juan Manuel del Castillo Von Haucke, was granted rights to the famous *Game Boy* name in 1989. Von Haucke has no right to the mark under international law and Mexico is the only country in the Western Hemisphere in which an individual or organization other than Nintendo has any rights to the *Game Boy* trademark. Mexican law has no opposition procedure and IMPI generally ignores opposition writs, leaving cancellation the only alternative for an aggrieved rights holder. The cancellation process may take years to be resolved, as in the Grupo Von Haucke case. All Nintendo's attempts to recover the famous *Game Boy* mark under Mexican law have been fruitless. For a detailed report of this case, please refer to Nintendo's earlier filings.

Recommendations

Following are suggested steps which could improve IP protection in Mexico:

- Trademark cancellation procedures are weak and must be strengthened to comply with Mexican law, particularly article 62 of the Regulations of Industrial Property.
- All law enforcement authorities dealing with intellectual property matters must be constantly trained and attend courses to improve their knowledge of IP laws and effective enforcement procedures.
- Procedures involving filing of criminal complaints and the issuance of search warrants must be improved. It is critical that anti-piracy actions be conducted in a swift manner. Currently, the long delays in obtaining a search warrant makes it extremely challenging to conduct a successful action.
- IMPI must accelerate issuance of penalty decisions. Currently, it takes many months or sometimes years to obtain a final resolution. The continued delays actually promote piracy, rather than stopping it.
- Mexican Courts and prosecutors must place more priority on IP cases. The Courts must order deterrent sanctions against counterfeiters.
- A process must be established for dealing with confiscated counterfeit goods. Customs, IMPI and AGO are all impacted by the lack of procedures dealing with seized products. There must be an effective procedure implemented that outlines how to handle the products while the case is pending and how the goods will be destroyed.

- Legislation must be proposed and enacted making it a criminal offense to deal in any manner with circumventing technological protection measures and distribution and services associated with modification chips and game copy devices. Any product or software that enables the circumvention of technical protection measures must be prohibited under the law.
- Additional resources must be devoted to customs in an effort to improve effectiveness in halting the importation of counterfeit goods and components. Procedures must be developed to effectively deal with importers falsifying shipping documents.
- Customs must implement inspection procedures to effectively screen for and seize products known to be highly counterfeited, such as video game products and components.
- Customs regulations must be revised to allow the agency to quickly facilitate the seizure of products without first obtaining approval from IMPI, which is not immediately granted.
- Procedural hurdles for actions taken by the FPP should be removed. The conflict between the various enforcement agencies, such as the FPP, IMPI and the Attorney General's Office, must be immediately resolved so that actions and criminal prosecutions can be conducted.

The Mexican Government should also begin an aggressive educational campaign to demonstrate to the general public the impact piracy has on its local economy and the benefits of supporting legitimate businesses that pay taxes.

PARAGUAY

Paraguay has long been recognized as a major hub and transshipment point for pirate *Nintendo* video game products entering Latin America from Asia. Residents of neighboring countries travel to Ciudad del Este (CDE) in particular just to purchase pirate goods. Further, due to the history of lax enforcement, pirates have set up assembly operations within Paraguay's borders. Seizures in 2007 and in previous years involved thousands of finished optical media and cartridge format games as well as pirate components including packaging, labels and cartridge housings intended for assembly into finished goods.

While Ciudad del Este continues to be the focal point of pirate activities in Paraguay, commerce in general within CDE, licit and illicit, declined in 2007. This is largely due to Brazilian controls on the Paraguay/Brazil border, particularly in the area of the

Friendship Bridge. Such controls have forced pirates to use alternative means and locations to sell and export illicit video game products including countless river and dry crossing areas. Three commercial concentrations are increasingly prominent with respect to the flow of pirate products: Pedro Juan Caballero, Salto del Guaira, and Encarnacion. The initial two cities impact the Brazilian market while the third is directed towards Argentina consumers.

Paraguayan authorities have made minimal attempts to control these three commercial areas, or the river and dry border crossings. The responsibility for this control rests with the Paraguayan Customs. Despite U.S. efforts through 'Plan Umbral' and U.S. Immigration and Customs Enforcement to help in establishing Paraguayan enforcement groups to assist in the fight against piracy, such groups have yet to produce significant results. In addition, they have been plagued with corruption, leading to several reorganizations and changes of personnel.

In addition to problems in CDE and the border points, information obtained by Nintendo indicates that a significant quantity, possibly the majority, of pirate video games are entering through the Asuncion and CDE airports, for eventual sale to Brazil. While Paraguayan Customs has implemented some measures in the river and land ports, the well-known airport transit system remains intact.

Anti-Piracy Actions

Enforcement activities involving *Nintendo* products in 2007 demonstrated continued sales of pirate video games in cartridge and optical media formats, both imported and locally produced, as well as evidence of games being assembled in Paraguay. Over 70,000 infringing *Nintendo* games, plus over 40,000 other pirate *Nintendo* game components, were seized. Many of these were the result of a large scale raid of 35 targets conducted in the CDE shopping center, Gallery Page.

The Specialized Technical Unit (UTE), under the leadership of an active duty Air Force Colonel, is the small, but shining star of Paraguay's enforcement efforts. The UTE conducted 13 enforcement actions in which pirate *Nintendo* products were seized in 2007. Operating with 100% US government funding, the UTE has the verbal support of the Paraguayan Government; however, the absence of funding to cover expenses not assumed by the U.S. Government speaks a different story. The lack of a Paraguayan budget and status of the UTE as an inter-governmental task force, vice an independent Paraguayan Government entity, place it at risk of disappearing if U.S. Government funding is eliminated, or there is a political change in Paraguay.

Memorandum of Understanding

The U.S. and Paraguay agreed on the wording of the 2008 Memorandum of Understanding (MOU) to be signed early in the year. The MOU commits the Paraguayan Government to seriously enforce intellectual property rights. Nintendo believes that the MOU has been effective in moving forward positive IPR actions;

however, some of the most important aspects of the Memorandum remain unimplemented by the Paraguayan Government. Nintendo encourages the U.S. Government to continue to pressure and assist Paraguay to implement some of these items including: the passage of the revised Penal Code; maximum sentences for IPR violators, not just fines; an increase in the quantity of ex officio cases initiated by prosecutors, and the establishment of a statistic center.

Ties to Organized Crime and Terrorism

In 2007, the UTE conducted a simultaneous raid of 35 targets in Gallery Page, the largest enforcement action ever conducted in Paraguay. Gallery Page is currently sited on the U.S. Treasury's list as a Specially Designated Global Terrorist (SDGT) for providing funding to terrorist groups. A sizeable quantity of pirate *Nintendo* games was seized in the operation as well as evidence relating to terrorist organizations including Hezbollah and Hamas.

Corruption

Despite steps taken under various U.S. funded programs, such as 'Plan Umbral,' to eliminate corruption in Paraguay, the anti-piracy arena continues to exhibit numerous examples. Corrupt expert witnesses, susceptible to bribes to provide oral or written testimony favorable to the pirates, continue to be a problem. The Paraguayan Government does not enforce regulations or qualifications to be an expert; and obtaining a court license is a matter of political favors vice qualifications. Judges and prosecutors are also left to their own discretion in the designation of a specific expert. IP attorneys openly and routinely pay prosecutors and judges a substantial 'tip' to do their jobs; no one views this as bribery or corruption. Prosecutors' warehouses containing seized pirate products continue to be plagued with evidence robberies. Authorities open investigations when complaints are filed for the missing evidence, but no actual action is taken against those responsible. While prosecutors are being rotated more frequently, judges are extremely difficult to remove from their position and particularly in CDE as they act with impunity in cutting deals with the pirates at the expense of IP rights holders. Assistant prosecutors are passed from one prosecutor to the next allowing them to develop a network of contacts among the pirates, which is often used to filter information on planned enforcement actions, in exchange for payment. Many judicial secretaries are involved in the same scheme. Finally, corrupt attorneys, supposedly acting in the interest of IP clients, often allow important quantities of pirate products to enter Paraguay and be sold to Brazil in exchange for payment. Paraguayan Customs and other authorities are often involved in the schemes.

Paraguayan Customs

At the end of 2007, the Paraguay Customs Administration established a recordation department in Customs designed to serve as a central registry for all IP registrations. The effort is designed to facilitate Customs' notifying the IPR holders in the event that product corresponding to the registration enters Paraguayan ports. IPR holders would then be allowed to verify product authenticity. In addition, the office is designed to

facilitate information sharing between Customs and the IPR holders. Nintendo views this as a positive step forward, though it is too early to determine if the effort will be successful. One problem identified in the concept of notifying IPR holders when their product has been found is that importers of pirate goods rarely declare the trademark or the true identity of the goods in the customs documentation. Success in this area will depend on the honesty of the Customs' officials to notify the recordation office when suspect products are found.

In the past year, Paraguayan Customs inspectors initiated and presented complaints to IP prosecutors upon the identification of pirate goods. While such actions remain limited in number, this would have been unheard of in past years; inspectors would have accepted a bribe to allow pirate products to enter Paraguayan territory. Nintendo's information indicates that inspectors fear that they will be subjected to stiff consequences if they inspect and release shipments of pirate products. Nintendo commends the Paraguayan Customs Director for laying down the law and creating an environment where punishments are taken seriously.

Tax Reform

The Paraguayan tax reform (Law No. 2421/04 Administrative Re-ruling and Tax Reform) implemented on January 1, 2007, made tax evasion a crime, punishable with a prison sentence or fine. Enforcement of the law has resulted in fines, but no prison sentences in piracy cases. The most frequent example of the enforcement efforts consist of verifications of businesses in CDE and proof of the business' failure to pay adequate taxes. An agreement is often struck with the prosecutor and judge, allowing the defendant to pay a small portion of the fine due. Many of these deals are not only suspected of financially benefiting the authorities involved, but provide a very limited deterrent effect. Paraguay Customs exercises a system of charging fines for importers who are caught undervaluing imported products. The system functions only when Customs officials have knowledge of the true value of the products and are willing to enforce the regulations.

Recommendations

The following steps are suggested to improve IP protection in Paraguay:

- Paraguayan Customs is the primary perimeter of security to prevent pirate products from entering Paraguayan territory. Nintendo encourages the U.S. Government to continue efforts to assist Paraguay in establishing an effective and uncorrupt enforcement body to protect the borders and all points of entry. In addition, the U.S. Government's continued financial and educational support of the UTE as well as pressure on Paraguay to change the status of the UTE to an independent entity with a budget is a vital to winning the battle against piracy.
- While the provisional law designating copyright offenses as a public action remains in place, it is vital that the Paraguayan Government enact the revised

Penal Code making this a permanent law. Despite the legislation, many Paraguay prosecutors continue to be hesitant to make *ex officio* seizures or accept complaints presented without the backing of a legal power of attorney, in copyright offense cases. Nintendo encourages the U.S. Government to fund training on copyright as a public offense.

- The U.S. and Paraguayan Governments have made a serious effort to combat corruption in Paraguay through the U.S. funded 'Plan Umbral.' However, Paraguay continues live up to its Transparency International ranking as one of the most corrupt countries in Latin America. Corruption pervades the judicial branch in areas ranging from corrupt judges and prosecutors who accept bribes from offenders to corrupt expert witnesses who go unpunished for issuing intentionally false testimony. These elements greatly affect just outcomes in IPR cases. Nintendo encourages the U.S. to continue funding, training and oversight to decrease corruption levels.
- While the Paraguayan Attorney General has made great strides in decreasing corruption in district prosecutors, the judicial branch continues to be a major hindrance in the advancement IPR actions. Frequent rotations of prosecutors have a downside of allowing prosecutors less time to develop expertise in IPR law. In CDE, some prosecutors continue to be subject to political influence and economic corruption. A high rate of corruption among judges creates a difficult environment for obtaining raid warrants and seizing and destroying pirate products. In addition, corrupt prosecutors' assistants and judicial secretaries who remain in the IPR area for years, present a serious threat to progress. Nintendo believes that training programs for new IPR prosecutors as well as rotations of prosecutors' assistants and judicial secretaries are an important element to successful legal actions. In addition, the U.S. should support the establishment of designated IPR judges, specially trained in IP law, with the ability to issue raid warrants nationwide.

CONCLUSION

The Special 301 process has become one of the most effective tools the U.S. has to encourage countries to make the necessary commitment to improve their intellectual property protection to the level of international standards. Nintendo of America Inc. respectfully submits its recommendations on Brazil, China, Hong Kong, Mexico, Paraguay and Korea. Nintendo welcomes the opportunity to work with USTR and other

Ms. Choe Groves
Office of the United States Trade Representative
February 8, 2008

involved federal departments and agencies in any way possible to reduce piracy in these countries, and would be pleased to provide any further information or documentation that would be helpful.

Very truly yours,

NINTENDO OF AMERICA INC.

A handwritten signature in black ink, appearing to read "Richard C. Flamm". The signature is written in a cursive style with a large initial "R" and a long, sweeping underline.

Richard C. Flamm
Senior Vice President & General Counsel