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Copyright Industries Release Report on Piracy in 68 Countries/Territories and Press Their Global Trade Priorities for 2006

IIPA Asks USTR Again to Name Russia a Priority Foreign Country

Washington, D.C. —The International Intellectual Property Alliance (IIPA) submitted its recommendations to U.S. Trade Representative Rob Portman today in the annual “Special 301” review of copyright piracy and related market access problems around the world. IIPA’s submission discusses copyright protection and/or enforcement problems in 68 countries/territories, of which it recommends that 46 be placed on an appropriate USTR list. IIPA also identifies piracy and market access problems in an additional 22 countries but is not recommending that these countries be placed on a formal list. Finally, the submission describes seven challenges and initiatives that define the industries’ collective agenda for the coming year.

As a result of the deficiencies in the copyright regimes of these surveyed countries/territories, the copyright industries conservatively estimate that losses due to piracy in 2005 in the 68 countries/territories surveyed were over \$15.8 billion. On a global basis (that is, in all countries including the U.S.), IIPA conservatively estimates that total losses due to piracy were \$30-35 billion in 2005, not counting significant losses due to Internet piracy, for which meaningful estimates are not yet available.

Priority Foreign Country: IIPA recommends that USTR designate **Russia** as a Priority Foreign Country in 2006 and that Russia’s eligibility for GSP benefits be immediately suspended. Russia’s copyright piracy problem remains one of the world’s most serious. Piracy rates for most sectors are estimated at around 70%-80% in 2005 and losses continue to be staggering. Repeated efforts by industry and the U.S. government over many years to convince the Russian government to provide meaningful and deterrent enforcement of its copyright and other laws against optical disc (OD) factories and other types of piracy—including some of the world’s most open and notorious websites selling unauthorized materials, such as www.allofmp3.com, have yielded little progress in reducing these high piracy levels. Not only is piracy in the domestic market out of control, but pirate exports continue to flood markets across Eastern and Western Europe.

Priority Watch List: IIPA recommends that 16 countries be placed on the Priority Watch List in 2006: **Argentina, Chile, Colombia, Costa Rica, the Dominican Republic, Egypt, India, Indonesia, Israel, Lebanon, the People’s Republic of China, the Philippines, Thailand, Turkey, Ukraine** and **Venezuela**. New to this list compared to IIPA’s 2005 recommendations are **Israel, Turkey, Venezuela, Costa Rica** and **Ukraine** (the latter was on USTR’s PFC list last year)

With respect to the **People’s Republic of China**, IIPA again recommends that China remain on the Priority Watch List, pending a revisiting of this recommendation based on the outcomes of the scheduled April 2006 U.S.-China Joint Commission on Commerce and Trade (JCCT). The copyright piracy situation in China remains dire, with no meaningful deterrence delivered by China’s enforcement regime.

Watch List: IIPA asks USTR to place (or maintain) 28 countries/territories on the Watch List.

Special 301 Monitoring of Paraguay: IIPA again commends **Paraguay** for the efforts that it has made over the course of this past year, notes that more anti-piracy work is needed in the country and at its borders, and recommends that USTR continue to monitor developments in Paraguay under Section 306 of the Trade Act of 1974.

Out-of-Cycle Reviews: IIPA requests that USTR later this year conduct out-of-cycle reviews of seven countries/territories to evaluate their progress on the issues identified in this submission: **Brazil, Canada, Hong Kong, Malaysia, Pakistan, Saudi Arabia, and South Korea.**

Countries/Territories Discussed in the Submission But Not Recommended for List Placement: IIPA also identifies serious piracy or law reform problems in 22 additional countries (in the Special Mention section of the submission) and recommends that USTR press these concerns to these countries in its bilateral trade engagements. IIPA is not, however, recommending these countries for placement on a formal Special 301 list.

Review of Copyright Protection Practices Under the GSP Trade Program

U.S. government reviews are ongoing regarding whether certain 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 suspension or limitation of these substantial trade benefits. There are four ongoing reviews, all based on petitions filed years ago by the IIPA: **Russia, Lebanon, Kazakhstan, and Uzbekistan.**

The following table summarizes IIPA's placement recommendations for 2006:

PRIORITY FOREIGN COUNTRY	PRIORITY WATCH LIST	WATCH LIST	SECTION 306 MONITORING	OTHER COUNTRIES DESERVING SPECIAL MENTION
Russia (GSP)	Argentina Chile Colombia Costa Rica Dominican Republic Egypt India Indonesia Israel Lebanon (GSP) People's Republic of China Philippines Thailand Turkey Ukraine Venezuela	Bahamas Belarus Bolivia Brazil + OCR Bulgaria Canada + OCR Ecuador Greece Hungary Italy Kazakhstan (GSP) Kuwait Latvia Lithuania Malaysia + OCR Mexico Pakistan + OCR Peru Poland Romania Saudi Arabia + OCR Serbia and Montenegro South Korea + OCR Taiwan Tajikistan Turkmenistan Uzbekistan (GSP) Vietnam	Paraguay	Azerbaijan Bangladesh Bosnia and Herzegovina Brunei Burma (Myanmar) Cambodia Cyprus Czech Republic Estonia Hong Kong + OCR Japan Kenya Lao People's Democratic Republic Morocco New Zealand Nigeria Panama Singapore South Africa Spain Sweden Switzerland
1	16	28	1	22

IIPA's Copyright Priorities and Challenges in 2006

IIPA has identified seven global priorities for 2006 that it urges the U.S. Government to pursue: (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; and (7) using Free Trade Agreements (FTAs) to improve global standards of copyright protection and enforcement.

In commenting on this year's Special 301 process, IIPA President Eric H. Smith noted:

"The annual Special 301 process continues to be the primary means for the U.S. copyright industries to secure improved protection and enforcement in key markets around the world infected with high levels of copyright piracy. The unwillingness of the countries identified in our submission to curb high rates of piracy – particularly through more effective and deterrent enforcement – saps the U.S. economy of the high-paying jobs and strong growth rates that are characteristic of the copyright-based sector. This year's Special 301 filing again recommends that **Russia** be designated at the top of the Special 301 list – as a Priority Foreign Country. Another of the worst piracy havens in the world – **China** – is again recommended for the Priority Watch List pending the results of this April's JCCT meetings. Both these countries top the pirate country list for 2005.

"This year saw some improvements – in **Pakistan**, where pirate OD factories were closed; in **Brazil**, which demonstrated a new and welcome attitude toward fighting the scourge of piracy that has devastated its own market for high tech and cultural products; in **Taiwan**, where improved enforcement continues to bring down piracy rates (but which are now threatened by piracy on the Internet); and in a number of other countries. But the enforcement job is far from over. These countries must begin to, or in Taiwan's case, continue to, prosecute pirates and impose deterrent penalties if they are to deter this economic crime over the long run.

"In 2006, IIPA is asking the U.S. government to bring greater pressure to bear, and to employ new tools, to improve enforcement systems in the countries on these lists. Securing deterrent enforcement via the active implementation of the new and much improved copyright laws adopted in many countries over the past 20 years has clearly become the greatest challenge faced by our industries, and the most difficult one for our government to address effectively. Many countries are simply unaware of what deterrent enforcement can do to benefit their own economies. They jeopardize compliance with their international WTO TRIPS obligations by not effectively enforcing their laws. Some are just unwilling to address this serious problem. In our discussion of IIPA initiatives for 2006, we highlight our recommendations in this area.

"Internet piracy has jumped up many notches on our list of priorities and challenges. The incredible growth of broadband, particularly in Asia, has threatened to undermine many of the law reform and enforcement gains that have been laboriously achieved in many countries. For some years Internet piracy has been a developed country issue and governments in these countries have adjusted their laws and enforcement systems. But now countries like **China, India, South Korea** and others soon will have more people connected to the Internet than in the United States. Full implementation by these and other countries of the WIPO "Internet" treaties, and the creation of political will and the enforcement mechanisms needed to fight this growing problem must be essential tasks for both industry and government.

"IIPA and its members salute the efforts of USTR and the other agencies involved in seeking resolution of these issues. The dedication of the U.S. Government to these initiatives has been outstanding, but more must be done. IIPA hopes today's filing will help focus continued U.S. Government efforts in this arena. We call upon the governments of all countries to halt the rapid spread of optical disc piracy and to fight collectively to bring to justice the organized criminal syndicates that control it. These syndicates generate billions of dollars in virtually risk-free profits. Markets worldwide are being swamped by illegal CDs, CD-ROMs, DVDs, "burned" CD-Rs, DVD-Rs and similar optical disc products that

threaten to undermine many of the anti-piracy gains made in the last decade. IIPA is asking that countries or territories that harbor optical media pirate producers pass strong optical disc regulations to enhance existing copyright laws to deal with this massive global problem, and then to enforce those regulations vigorously.

"IIPA also asks governments to adopt effective legislation and take aggressive enforcement actions to deal with piracy of business software and other copyrighted materials within enterprises, which cause huge losses to the U.S. economy, and to combat book and journal piracy, as well as high levels of illegal commercial photocopying in many countries.

"Finally, we salute the U.S. government for staying the course in negotiating strong IP and enforcement chapters in free trade agreements. Our government just announced initiation of an FTA negotiation with our seventh largest trading partner, South Korea. South Korea has the highest broadband penetration in the world and has significant Internet piracy problems. An FTA should go far toward building the proper legal and enforcement infrastructure to move South Korea into the plus column of markets that welcome creative industries, rather than steal from them."

A table of IIPA's recommendations, including estimated trade losses and piracy levels on a country-by-country and industry-by-industry basis, is attached to this release.

Note: Full country reports for IIPA's 2006 Special 301 Report will be posted on the IIPA website, <http://www.iipa.com>, on Monday, February 13, 2006 by 11:00 a.m. EST (16:00 GMT).

About IIPA and the Impact of the U.S. Copyright Industries on the U.S. Economy and Foreign Trade

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).

In October 2004, the IIPA released its latest economic report, entitled *Copyright Industries in the U.S. Economy: The 2004 Report*, the tenth such study written by Stephen Siwek of Economists Inc. for IIPA. The latest data shows that in 2002, the U.S. "core" copyright industries accounted for an estimated 6% of U.S. Gross Domestic Product (GDP), or \$626.6 billion, and the "total" copyright industries accounted for an estimated 12% of U.S. GDP, or \$1.25 trillion. The "core" copyright industries employed 4% of U.S. workers in 2002, or 5.48 million persons. Between 1997 and 2001, the "core" copyright industries' employment grew at an annual growth rate of 3.19% per year, a rate more than double the annual employment rate achieved by the U.S. economy as a whole (1.39% per year). Finally, in 2002, the U.S. copyright industries achieved foreign sales and exports estimated at \$89.26 billion, leading other major industry sectors such as chemicals and related products, motor vehicles, equipment and parts, and aircraft and aircraft parts.

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

	Business Software ¹		Records & Music ²		Motion Pictures ³		Entertainment Software ⁴		Books	Totals ⁵
	Loss	Level	Loss	Level	Loss	Level	Loss	Level	Loss	Loss
	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005
PRIORITY FOREIGN COUNTRY										
Russian Federation (GSP)	748.4	85%	475.9	67%	266.0	81%	223.9	82%	42.0	1756.2
PRIORITY WATCH LIST										
Argentina	80.6	77%	69.5	60%	NA	NA	NA	NA	4.0	154.1
Chile	47.4	64%	22.7	51%	NA	NA	NA	NA	1.0	71.1
Colombia	44.8	55%	47.7	71%	NA	NA	NA	NA	6.0	98.5
Costa Rica	9.6	67%	18.3	60%	NA	NA	NA	NA	NA	27.9
Dominican Republic	2.6	77%	10.8	75%	NA	NA	NA	NA	1.0	14.4
Egypt	30.3	64%	9.0	60%	NA	NA	14.3	85%	30.0	83.6
India	265.1	74%	70.7	55%	NA	NA	65.2	86%	42.0	443.0
Indonesia	97.9	85%	24.5	75%	NA	NA	NA	NA	32.0	154.4
Israel	32.9	34%	28.0	35%	NA	NA	NA	95%	1.0	61.9
Lebanon (GSP)	17.9	75%	3.2	75%	NA	NA	NA	NA	4.0	25.1
People's Republic of China	1276.1	88%	204.0	85%	244.0	93%	589.9	92%	52.0	2366.0
Philippines ⁴	43.3	71%	21.0	40%	NA	NA	11.3	85%	48.0	123.6
Thailand	107.9	77%	21.9	45%	149.0	62%	NA	75%	30.0	308.8
Turkey	119.2	64%	18.0	80%	NA	NA	NA	NA	23.0	160.2
Ukraine	61.8	90%	30.0	60%	NA	NA	NA	NA	NA	91.8
Venezuela	40.9	78%	33.0	83%	NA	NA	NA	NA	NA	73.9
WATCH LIST										
Bahamas	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Belarus	NA	NA	25.0	70%	NA	NA	NA	NA	NA	25.0
Bolivia	6.0	80%	15.8	90%	NA	NA	NA	NA	NA	21.8
Brazil (OCR)	385.2	65%	334.5	52%	NA	NA	120.8	77%	18.0	858.5
Bulgaria	20.5	73%	7.0	80%	NA	NA	21.0	81%	NA	48.5
Canada (OCR)	580.6	36%	NA	NA	118.0	8%	NA	NA	NA	698.6
Ecuador	7.9	70%	26.3	90%	NA	NA	NA	NA	2.5	36.7
Greece	58.3	60%	26.0	60%	NA	NA	NA	NA	NA	84.3
Hungary	64.7	42%	12.0	30%	102.0	73%	NA	30%	4.0	182.7
Italy	760.8	48%	40.0	20%	161.0	22%	639.2	30%	20.0	1621.0
Kazakhstan (GSP)	NA	NA	20.0	66%	NA	NA	NA	NA	NA	20.0
Kuwait	30.6	68%	8.5	70%	NA	NA	NA	91%	0.5	39.6
Latvia	12.5	58%	12.0	85%	NA	NA	1.3	82%	NA	25.8
Lithuania	12.2	58%	12.0	85%	NA	NA	1.7	88%	NA	25.9
Malaysia (OCR)	75.1	60%	38.8	49%	NA	NA	23.4	91%	10.0	147.3
Mexico	214.2	64%	376.5	65%	483.0	62%	137.7	75%	42.0	1253.4
Pakistan (OCR)	15.7	83%	25.0	100%	NA	NA	NA	NA	55.0	95.7
Peru	23.6	73%	66.0	98%	NA	NA	NA	NA	9.0	98.6
Poland	212.3	58%	25.0	31%	102.0	66%	NA	60%	5.0	344.3
Romania	41.6	75%	17.0	80%	NA	NA	NA	75%	2.0	60.6
Saudi Arabia (OCR)	80.1	52%	20.0	50%	NA	NA	NA	95%	10.0	110.1
Serbia and Montenegro	NA	NA	12.5	80%	NA	NA	NA	NA	NA	12.5
South Korea (OCR)	255.8	46%	1.3	13%	NA	NA	415.1	55%	43.0	715.2
Taiwan	77.5	42%	21.5	26%	98.0	51%	161.9	42%	18.0	376.9
Tajikistan	NA	NA	5.0	80%	NA	NA	NA	NA	NA	5.0
Turkmenistan	NA	NA	7.0	85%	NA	NA	NA	NA	NA	7.0
Uzbekistan (GSP)	NA	NA	30.0	80%	NA	NA	NA	NA	NA	30.0
Vietnam	26.8	91%	NA	95%	NA	NA	NA	NA	16.0	42.8
SPECIAL 306 MONITORING										
Paraguay ²	7.3	83%	128.0	99%	NA	NA	NA	NA	2.0	137.3

IIPA 2006 "SPECIAL 301" RECOMMENDATIONS

IIPA 2005 ESTIMATED TRADE LOSSES DUE TO COPYRIGHT PIRACY

(in millions of U.S. dollars)

and 2005 ESTIMATED LEVELS OF COPYRIGHT PIRACY

	Business Software ¹		Records & Music ²		Motion Pictures ³		Entertainment Software ⁴		Books	Totals ⁵
	Loss	Level	Loss	Level	Loss	Level	Loss	Level	Loss	Loss
	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005
SPECIAL MENTION										
Azerbaijan	NA	NA	15.0	80%	NA	NA	NA	NA	NA	15.0
Bangladesh	NA	NA	NA	NA	NA	NA	NA	NA	6.0	6.0
Bosnia and Herzegovina	NA	NA	2.0	95%	NA	NA	NA	NA	NA	2.0
Brunei	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Burma (Myanmar)	NA	NA	NA	NA	NA	NA	NA	NA	4.0	4.0
Cambodia	NA	NA	NA	NA	NA	NA	NA	NA	4.5	4.5
Cyprus	5.9	53%	NA	NA	NA	NA	NA	50%	NA	5.9
Czech Republic	70.5	39%	10.0	50%	NA	NA	NA	NA	NA	80.5
Estonia	11.1	55%	6.8	60%	NA	NA	NA	50%	NA	17.9
Hong Kong (OCR)	59.0	51%	4.3	18%	NA	NA	90.8	71%	6.0	160.1
Japan	890.3	27%	NA	NA	NA	NA	NA	NA	NA	890.3
Kenya	10.4	83%	13.0	97%	NA	NA	NA	NA	NA	23.4
Lao People's Democratic Republic	NA	NA	NA	NA	NA	NA	NA	NA	3.0	3.0
Morocco	42.8	72%	10.0	95%	NA	NA	NA	NA	NA	52.8
New Zealand	13.3	22%	NA	NA	NA	NA	NA	28%	NA	13.3
Nigeria	33.6	84%	52.0	95%	NA	NA	NA	NA	6.0	91.6
Panama	2.6	70%	NA	NA	NA	NA	NA	NA	NA	2.6
Singapore	49.7	42%	2.4	5%	NA	NA	NA	NA	2.0	54.1
South Africa	110.5	36%	NA	NA	NA	NA	NA	NA	2.0	112.5
Spain ²	388.0	44%	27.0	22%	253.0	32%	135.3	43%	NA	803.3
Sweden	176.0	26%	NA	NA	NA	NA	NA	NA	NA	176.0
Switzerland	168.4	27%	NA	NA	NA	NA	NA	NA	NA	168.4
TOTALS	8028.1		2563.4		1976.0		2652.8		606.5	15826.8

Endnotes:

¹BSA's 2005 statistics are preliminary. They represent the U.S. publishers' share of software piracy losses in each country, and follow the methodology compiled in the Second Annual BSA/IDC Global Software Piracy Study (May 2005), 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 2004 piracy statistics were preliminary at the time of IIPA's February 11, 2005 Special 301 filing; the 2004 data has been revised and is reflected above.

²RIAA: In Paraguay, RIAA reports that its estimated losses to the records and music industry include both domestic piracy in Paraguay and estimated losses caused by transshipment. In Spain, RIAA's 2004 loss estimate of \$90 million reflects all-industry losses (U.S. plus International repertoire); the 2005 losses reflect U.S.-only estimates. All-industry 2005 losses in Spain are in the \$75 million range.

³MPAA's trade losses and piracy levels for 2005 are available for a limited number of countries and are based on a methodology that analyzes physical or "hard" goods and Internet piracy. For a description of the new methodology, please see Appendix B of this report. As loss numbers and piracy levels become available for additional countries at a later time, they will be posted on the IIPA website, www.iipa.com.

⁴ESA's reported dollar figures reflect the value of pirate product present in the marketplace as distinguished from definitive industry "losses." The value of pirate product in the market in the Philippines reflects only the value of pirate product for personal computers. The methodology used by the ESA is further described in Appendix B of this report.

⁵For many countries, the "total" loss figure does not include losses for one or more industry sectors where figures are unavailable (NA). Consequently, the totals for these countries are even more conservative.

^{*}"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.