Five years after its accession to the World Trade Organisation, the consensus among IP lawyers and scholars at the IPR in China Conference in London last year was that China has enormously improved its IPR system. However, it is still far from perfect. On the books China’s implementations of IPR laws are by and large compliant with the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPs). However, on the ground the enforcement is still inadequate, due to a lack of transparency, lack of a rule of law, lack of an independent judiciary, lack of a uniform application of law, widespread corruption and local protectionism, and lack of expertise in and respect for IPR. Within such a difficult environment one should tread carefully. Which enforcement approaches should one take in what situation? The administrative, criminal and civil enforcement routes, relevant to trade mark and design rights will be navigated below. Besides, the controversial implementations of some TRIPs provisions will be explored, to shed light on possible enforcement challenges.

Administrative enforcement route

In China the administrative enforcement route is most commonly used. When an interested party does not agree with the administrative decision, he can institute legal proceedings at the people’s courts. If no legal proceedings are instituted, the administrative authority needs to request the people’s court for execution of the measures. When the administrative authority determines or suspects an infringement that falls into the category of a crime, it should refer the case to the Public Security Bureau. For trade mark rights holders, there are two competing administrative authorities relevant: the Administration of Industry and Commerce and the Administration of Quality Supervision Inspection and Quarantine.

AIC

The Administration of Industry and Commerce (AIC) has the power to investigate trade mark infringements, based on article 54 Trade mark Law. There are AICs on different levels: state, provincial, and local. This paper will emanate from a discussion with the Administration of Industry and Commerce (AIC) in Beijing.

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cial, town and county. According to article 53 Trade mark Law, the AIC can, after the parties’ reluctance to resolve the dispute through consultation, order an injunction, confiscate and destroy the infringing goods and tools specially used for the manufacture of the infringing goods and for counterfeiting the representations of the registered trade mark. The real difference with the people’s courts is that the AIC can impose a fine, but no damages. An AIC can mediate, upon the request of the interested party, on the amount of compensation for the infringement, which seldom leads to satisfying results. Thus, frequently the interested party makes use of the possibility to institute legal proceedings in the people’s court, according to the Civil Procedure Law. There are more than 3,000 AIC offices with a total staff of 550,000 people in China. A complaint to an AIC needs to be filed by a registered trade mark agent. However, an AIC can also take action on its own initiative without any complaint of the holder. AICs operate very quickly and in theory do not charge for taking action. A disadvantage of the AICs was that they were prone to local protectionism, but since 1999 efforts have been made to put this under control, according to Andrew Mertha.

AQS IQ

A lesser known way for trade mark rights holders and also for design rights holders is to base their case on infringements of the Product Quality Law. Article 8 Product Quality Law makes the Administration of Quality Supervision, Inspection and Quarantine (AQS IQ) in charge of ensuring Chinese product quality and standards. So if these goods are fake and shoddy that can harm or intentionally deceive the consumer, AQS IQ can claim jurisdiction. The departments of AQS IQ, the Technical Supervision Bureaus (TSBs), deal with the investigation and punishment of acts in violation of the law, in particular, the passing off of fakes as genuine products. The TSBs have, pursuant to article 50 Product Quality Law, the following penalties where fake products that are passed off as genuine products: to cease production or sale, confiscation of products, a fine of more than 50 percent and less than three times the value of the products; confiscation of the illegal gains, if any; revocation of the relevant entity’s business license, where the circumstance is serious. If the infringement constitutes a crime, the case will be referred to the People’s Security Bureau. The Product Quality Law is also setting out liability for secondary offenders that played a role in the production or distribution of the illegal products to the primary infringers. Christopher Smith’s perception is that the TSBs are more quick and responsive to take action against outright counterfeiters, and are more willing to cooperate directly with foreign companies seeking to protect their IPR, than AICs. The overlap in enforcement activities between AIC and TSB has lead to a competition that improved the enforcement services of both administrative authorities and has driven their prices down. According to Mertha both AIC and AQS IQ realise that there is more money to be made by retaining a portion of the fees levied against counterfeiters than collecting case fees or charging for enforcement services. TSBs is less likely influenced by localism, because they are not dependent on management fees. Everybody can file a complaint anonymously at a TSB, which can also take action ex officio.

SIPO

Besides the Product Quality Law, Design rights holders can base their enforcement on the Patent Law. In China designs are, together with inventions and utility models, part of the so called inventions-creations, which are protected by the Patent Law. Article 3 Patent Law promulgates that the State Intellectual Property Office (SIPO) is responsible for the patent work throughout the country, including the enforcement of counterfeit patented products and patent infringement. Provincial offices generally deal with patent complaints. Pursuant to article 57 Patent Law when parties are unwilling to consult with each other or where the consultation fails, the parties may institute legal proceedings in the people’s court or request SIPO to handle the matter. When an infringement is established, SIPO may order an injunction and upon request of the parties mediate in the amount of compensation for the damage caused by the infringement. If the mediation fails, the parties may institute legal proceedings in the people’s court in accordance with the Civil Procedure Law. Where a person passes off the patent of another, he shall be

18 Where any interested party is dissatisfied with the decision on handling the matter, it or he may, within fifteen days from the date of receipt of the notice, institute legal proceedings in the People’s Court according to the Administrative Procedure Law, according to article 53 Trade mark Law.
19 “The administrative authorities often mediate between the IP owner and the infringer at the time of a raid. The parties may agree a financial settlement, although typically these have not been large sums”, Henry J.H. Wheare, Building and Enforcing IP Value, 2005 available at: http://www.buildingipvalue.com/n_api/380_383.htm.
22 According to Bai, see note 21.
25 Product Quality Law entered into effect on September 1, 1993 and was amended with effect from September 1, 2000.
28 Mertha, see note 28, pg. 15.
29 Article 61 Product Quality Law.
31 Mertha, see note 28, pg. 6.
32 Mertha, see note 28, pg. 15.
33 Article 10 Product Quality Law.
35 Article 2 Patent Law. In this Law, “inventions-creations” mean inventions, utility models and designs.
37 At the national level SIPO is also responsible for the examination of foreign and domestic patents (Patent Re-examination Board) and the supervision of local SIPO bureaus.
ordered by SIPO, pursuant to article 58 Patent Law, to amend his act. SIPO will confiscate the illegal earnings and may impose a fine of not more than three times the illegal earnings, or if there are no illegal earnings, a fine of not more than RMB 50,000. If the infringement constitutes a crime, SIPO will transfer the case to the People’s Security Bureau. SIPO has limited enforcement resources. Therefore, it has less power than the other administrative bodies.

Customs

A much undervalued administrative enforcement route is customs. Customs can be very helpful to assess whether a product is being infringed in China.36 The General Administration of Customs (GAC) is the highest supervision unit of China Customs. GAC manages customs facilities nation-wide.40 It is the highest supervision unit of China Customs.

38 It is of course much more difficult to inspect each and every country to which counterfeit goods are exported.
39 General Administration of Customs, see http://english.customs.gov.cn/default.aspx (English).
41 Article 16 Regulations 2003.
42 Training customs can even be advantageous for brand name goods such as Nike shoes: Li Qunying, chief of the GAC, makes a difference. If he does, customs can notify him in advance and customs will proactively monitor shipments of goods for possible infringements. Recordation gives customs more information about the goods, which in turn may help them with the investigation and determination of infringed goods. However, trainings given by the rights holders may also be needed to educate customs how to distinguish characteristics of genuine products and their counterfeit versions.43 Recordation may have more advantages,44 but article 15 Rules for Implementing the Customs Regulations45 states that rights holders must provide a guarantee equivalent to the value of the goods to the customs if they request customs to detain infringing goods they may have discovered themselves. This may be more expensive than when Customs is acting ex officio, and could be interpreted as a security that unreasonably deters recourse to these procedures, which article 53 (1) TRIPs prohibits. Yu Xiang criticises the recordation prerequisite altogether.46 Yu deems it detrimental to both the private interests of the rights holder and to the public at large. Therefore, one can argue that recordation is an extra obstacle not mentioned in TRIPs.47 However, not recording one’s IPR gives the rights holder more control over when and where customs will seize the infringed products. Luke Minford48 points out that if a counterfeit product is just out of the factory, its value is marginal, but when it has been packaged and distributed over large distances it can substantially increase in value. Minford argues it is better to wait to seize counterfeit products when they have added value to such an extent that it will maximally hurt the counterfeit producer, and distributor.

Criminal enforcement route

Much, maybe too much, is expected from criminal enforcement in China, because of its alleged deterrent effect.

PBS/PPB

The Public Security Bureau (PBS) is China’s equivalent of the police. The People’s Procuratorate Bureau (PPB) has to approve formal arrests of suspects and file prosecutions with the court. The PBS and PPB base their criminal investigations of IPR infringements on the Criminal Law,49 which distinguishes seven types of IPR infringement as crimes.50 Three different ways of criminal enforcement can be distinguished. The first is the public prosecution, when the PBS and PPB start prosecuting initiated by the rights holder or ex officio. The PBS is more inclined to devote significant resources to investigate infringement and bring criminal actions when the case involves public health and safety issues.51 Thus Firth recommends to piggy-back on large scale IPR protection campaigns. The second way is launching a private criminal prosecution.52 And the third way is when administrative authorities refer their case to the PBS. Despite provisions in the Trade mark,
Product Quality and Patent Law that implicitly, and a provision in the Customs Law that explicitly, refer to the PBS, less than a percent of all trade mark and copyright cases handled by administrative authorities were turned over to the PBS for prosecution in 2005. China acknowledges the problem, reiterated commitments and came up with four guidelines to ensure a timely referral. The articles 213 through 220 Criminal Law state which IP infringements are penalised, but it was not clear when criminal liability will be triggered. The Interpretation by the Supreme People's Court and the Supreme People's Procuratorate on November 11, 2004 and to be effective as of December 22, 2004.

The Interpretation 2004 has significantly reduced the numerical thresholds for trade marks. Nevertheless the judicial interpretation was much criticised. It can be argued that the differences in the thresholds between enterprises and individuals is arbitrary. The Interpretation 2004 states three controversial methods for calculating product values produced by infringers, which all undervalue the infringing goods. Unlike its predecessors, Interpretation 2004 lacks provisions that criminalise repeat offenders, the infringement of well-known trade marks, or trade marks on pharmaceuticals for human use, and where illegal methods such as bribery are used to promote the sale of the counterfeit trade marks. On the other hand the Interpretation 2004 takes into account the values of illegal business turnover, gains and amount of sales of previous infringements, under the condition that such acts have not yet been given an administrative penalty or have not so far initiated criminal procedures.

According to Timothy Trainer, any numerical thresholds are outlawed by TRIPs. This opinion seems questionable, since there is no ban on numerical thresholds in TRIPs, and it is very common for WTO members’ legislations to have some kind of numerical thresholds for criminal liability, although these numerical thresholds may not be codified, unwritten rules for case dismissal do exist. The wording of article 61 TRIPs is not that remedies should provide a sufficient deterrent, but that they should be sufficient to provide a deterrent. So China’s implementation of article 61 TRIPs is only not compliant when there is no positive correlation between the thresholds and deterrence. Deterrence is a relative term; a remedy might be a deterrant for some individuals, while neutral to others, assuming a correlation with their circumstances and perception. A good way to measure a lack of deterrence would be to determine the level of recidivism of IP infringers, as professor Hughes points out. Article 61 TRIPs promulgates in the second sentence that actual prices for which they are sold after investigation. The third: to base the value of the infringed products without labelled prices or whose actual prices are impossible to ascertain, to be calculated according to the median market prices of such products.

54 Articles 59 and 62 Trade mark Law and 57, 64 and 68 Patent Law and 59 and 61 Product Quality Law.
55 Article 6 Customs Law.
57 However, “[i]n these three of these regulations language is used that seems to give discretion to police to reject cases which meet the numerical thresholds for referal to administrative to criminal authorities where there is a “reasonable suspicion” that the infringer has committed acts which, upon further investigation, would meet the criminal requirements,” Myron Brilliant, pg 10.
58 Interpretation by the Supreme People’s Court and the Supreme People’s Procuratorate on Several Issues of Concrete Application of Laws in Handling Criminal Cases of Infringing Intellectual Property, adopted at the 131st Session of the Judicial Committee of the Supreme People’s Court on November 2, 2004 and the 28th Session of the Tenth Procuratorial Committee of the Supreme People’s Procuratorate on November 11, 2004 and to be effective as of December 22, 2004.
59 Provisions of the Supreme People’s Procuratorate and Ministry of Public Security Regarding Prosecution Standards for Cases Involving Economic Crimes, April 14, 2001; and the Interpretation of Some Issues Concerning, the Trial of Cases on Criminal Cases of Illegal Publications issued by the Supreme People’s Court in 1998.
60 However, if the numerical thresholds are put in a broader historical context, the level of the threshold have not necessarily been decreased. For example the thresholds for use of a counterfeit trade mark was in 1993, under the Regulations Concerning Criteria for Placing on the Docket Cases Involving the Counterfeiting of Registered Trade marks, more than RMB 20,000, in 2001 under the Prosecution guideline for over RMB 500,000, and since the Interpretation 2004 more than RMB 30,000.
61 The damage done to the right holders is the same regardless of who commits the crime. It is relatively easier for a Chinese citizen to start a company. By doing so he can easily avoid operating above the criminal thresholds.
63 The first method is the price at which such products are actually sold, instead of the price of the genuine products. The second: infringed products that are stored, transported and those that are not sold, shall be computed according to the labelled price or the


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the deterrent should be consistent with the level of penalties applied for crimes of a corresponding gravity.\textsuperscript{76} Having severe and mandatory imprisonment sentences and monetary fines available on the books is not sufficient to provide a deterrent for criminal behaviour.\textsuperscript{77} Research shows that punishment certainty is far more consistently found to deter crime than punishment severity.\textsuperscript{77} This is especially relevant for China, because one of the prosecutorial ways is hardly used\textsuperscript{79} and prison sentences and fees are often not served or paid. Also long delays between the criminal act and punishment are not conducive for the deterrence, since imminence is a constituent part of deterrence.\textsuperscript{79, 80}

**Civil enforcement route**

Instead of the administrative enforcement routes, a rights holder should choose the civil enforcement route if the complexity of an infringement is high and the scale of it serious.

**People’s courts**

Article 123 Constitution provides that the people’s courts are the judicial organs of the state and are vested with the state’s adjudicative powers. The first instance can occur at any level in the system with a final appeal to a court at the next higher level.\textsuperscript{80} Where in the system the first instance occurs depends on the gravity of the offence. In 2000, China set up special and independent divisions to exclusively deal with all IP related civil cases. These so-called No. 3 (or No. 5) Civil Divisions, can be found at the Supreme People’s Court, all High People’s Courts, Intermediate People’s Courts in all provincial cities and many big cities, and even a few Basic People’s Courts.\textsuperscript{82} Judges on the panels have science or engineering backgrounds and experience in dealing with IP cases. It is better, particularly in more complex cases, to have the case heard by one of these courts. Another advantage, next to a higher level of expertise, is that such courts\textsuperscript{83} are less prone to localism. Thus, where a provincial court has a reputation of localism Wheare suggests to rely on a sale of an infringing product\textsuperscript{84} in cities such as Beijing, Shanghai, Guangzhou or Shenzhen so the more reputable Intermediate People’s Court located there can decide the case.\textsuperscript{85} Litigation is more expensive than the administrative enforcement route. These higher costs should be weighed against the expected damages, the remedy that distinguishes the civil from the administrative enforcement route. It is arguably one of the most powerful instruments a right holder has. The articles 56 Trade mark Law\textsuperscript{86} and 60 Patent Law\textsuperscript{87} implement article 45 (1) TRIPs to be able to order the infringer to pay the rights holder adequate damages. China’s IPR laws, however, do not guarantee the plaintiff can recover his damages,\textsuperscript{88} because the defendant may have no or hidden financial resources. One could argue that TRIPs furnishes the possibility of provisional measures also in non-urgent situations in contrast to article 97 (3) Civil Procedure. Then again the Chinese provisions stipulate provisional measures to stop an infringement that is already happening.\textsuperscript{89}

**Conclusions**

An AIC can act quick and cheap in case of a straightforward trade mark infringement case. An alternative enforcement route is relying on the rivaling TSMs, under AQSIQ. The Customs enforcement route can be very effective. Recordation has many advantages, but it can give away the enforcement action before the value of the infringed product maximises. If piggy-bagging during large scale public criminal prosecution enforcement campaigns is not working, one can launch a private criminal prosecution. However, to deter (potential) infringers is not so easy, because deterrence is a relative term and punishment certainty and imminence are more important than punishment severity. If a case is complex and damages awards are wanted, the civil enforcement route is preferable. By forum shopping one should make sure that the courts are reputable so advantage can be taken of their expertise and localism avoided.

\textsuperscript{76} Besides deterrence it should be noted that by factually imprisoning and fining criminals they may get incapacitated to continue their infringements.

\textsuperscript{77} “Two prominent findings from this literature are that punishment certainty is far more consistently found to deter crime than punishment severity, [.].” Nagin, see note 73, pg. 3.

\textsuperscript{78} The administrative authorities scarcely refer criminal cases to the criminal prosecution, as aforementioned.

\textsuperscript{79} “Going back to Beccaria, punishment imminence (‘celerity’) has been accorded co-equal status with certainty and severity in theory, yet empirical tests of the celerity effect are scant.” Nagin, see note 73, pg. 3.

\textsuperscript{80} There is a Pavlovian idea behind this theory, that the criminal is conditioned better if he is punished as soon as possible after the crime. Daniel Nagin has developed a discounting model for punishment imminence (‘celerity’) has been accorded co-equal status with certainty and severity in theory, yet empirical tests of the celerity effect are scant.\textsuperscript{79}

\textsuperscript{81} Article 60 Patent Law states damages should be based on losses of the right holder or profits of the infringer. Article 20 Patent Civil Dispute Interpretation explains how to calculate these losses and profits, and article 21 Patent Civil Dispute Interpretation explains that if that is not possible, how to use royalties as a reference or, if need be, to use statutory damages.

\textsuperscript{82} That is why Wheare advises to first carry out an investigation as to the financial status of the infringer. If the main concern is to stop infringements and to send a message to potential infringers, further enforcement to recover damages may not be worthwhile, see note 19.

\textsuperscript{83} The objective, to stop an already occurring infringement is conspicuously absent in article 50 (1a) TRIPs. In contrast, the preliminary execution of article 97 (3) Civil Procedure Law states implicitly that an occurring infringements can be stopped too, and so do the articles 57 Trade mark Law and 61 Patent Law.

\textsuperscript{84} Article 23 Civil Procedure Law: An action instituted for an infringing act shall be under the jurisdiction of the people’s court in the place where the infringing act took place or where the defendant has his or her domicile.

\textsuperscript{85} Wheare, see note 19.

\textsuperscript{86} Article 36 Trade mark Law provides three methods to calculate the amount of damages based on profit, injury or statutory damages. The plaintiff may elect the method. Article 14 Trade mark Civil Dispute Interpretation explains how the profits of the infringer are calculated.

\textsuperscript{87} Article 50 Patent Law states damages should be based on losses of the right holder or profits of the infringer. Article 20 Patent Civil Dispute Interpretation explains how to calculate these losses and profits, and article 21 Patent Civil Dispute Interpretation explains that if that is not possible, how to use royalties as a reference or, if need be, to use statutory damages.

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\textsuperscript{89} Article 127 Constitution: The Supreme People’s Court supervises the administration of justice by the people’s courts at various levels and by the special people’s courts. People’s courts at higher levels supervise the administration of justice by those at lower levels.


\textsuperscript{83} Wheare, see note 19.