

How to work within China's IPR enforcement system for trade mark and design rights¹

Five years after its accession to the World Trade Organisation,² the consensus among IP lawyers and scholars at the IPR in China Conference in London³ 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 Rights⁴ (TRIPs). However, on the ground the enforcement is still inadequate, due to a lack of transparency,⁵ lack of a rule of law,⁶ lack of an independent judiciary,⁷ lack of a uniform application of law⁸ widespread corruption⁹ and local protectionism,¹⁰ and lack of expertise in and respect for IPR.¹¹ 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 provisions¹² will be explored, to shed light on possible enforcement challenges.

Administrative enforcement route

In China the administrative enforcement route is most commonly used.¹³ When an interested party does not agree with the administrative decision, he can institute legal proceedings at the people's courts.¹⁴ 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 Commerce¹⁵ (AIC) has the power to investigate trade mark infringements, based on article 54 Trade mark Law.¹⁶ There are AICs¹⁷ on different levels: state, provin-

* Danny Friedmann's thesis 'TRIPs in China: Paper Tiger or Roaring Dragon, China's TRIPs Implementations and Enforcement', will be published on his site IP Dragon <http://ipdragon.blogspot.com>.

1 All rules, regulations, judicial interpretations and guidelines mentioned in this article can be found in English via the blogroll of IP Dragon, available at: <http://ipdragon.blogspot.com>.

2 China became the 143rd member of the WTO on December 11, 2001.

3 IPR in China Conference, London, March 20, 2006, see here: <http://www.iplawportal.com/china>.

4 After its accession to the WTO China automatically entered into TRIPs, which is an integral aspect of the WTO agreement.

5 Upon accession to WTO China committed itself to share information about new regulations, issue draft laws, establish public comment procedures. China's size and decentralisation, communist heritage and language, makes for a lot of confusion about IP in China. Not only China can increase the transparency, overseas companies could exchange their experiences.

6 China's leadership clearly wants to restrict lower government authorities to the rule of law, however it does not want to self-impose restrictions as long as its very survival is at stake.

7 The Standing Committee of the National People's Congress is superior to the Supreme People's Court: it has the final word when it comes to the interpretation (article 43 Legislation Law) or invalidating (article 90 Legislation Law) of laws by the Supreme People's Court. The National People's Congress controls the funding and staffing of the Supreme People's Court. Similar structures exist at lower levels: where local Party Organisation Department and people's congresses control key appointments and funding for courts. Randall Peerenboom, 'China's Long March Toward Rule of Law', Cambridge University Press, 2002, pg. 268.

8 The Legislative Affairs Office, which monitors and addresses non-uniform application of law has much work to do. Therefore it is doubtful if it even get round to dealing with local deviations from WTO standards, such as TRIPs. More might be expected of MOFCOM's Department of WTO. A concentrated appeals court, would probably have more chances to unify the application of law.

9 The Transparency International Corruption Perceptions Index has ranked China in 78th position with a score of 3.2, where 10 is highly clean, available at: <http://www.transparency.org/cpi/2005/>

cpiz2005.sources.en.html.

10 Localism (local protectionism): When deciding in IP infringement disputes, local courts are inclined to rule in favour of local companies even though they infringe IP. The reason is that the local judge is appointed by the local party and financed by the local government, who in turn is dependent on the tax revenues and management fees paid by the local company. Then the local company's employer or employees are often friends and relatives of the local party or government. Besides, it is not in the interest of the local government that the infringing company is going out of business, because this will lead to unemployment and social unrest.

11 The 2006 Special 301 Report states: "Litigants, according to the US Trade Representative, have found that most judges lack necessary technical training, (...)" pg. 21, available at: http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/2006_Special_301_Review/asset_upload_file473_9336.pdf.

12 What to expect from TRIPs, now that China is not effectively enforcing its near compliant TRIPs implementations? The provisions of TRIPs are obligations of means instead of obligations of result. Besides, China could call upon article 41 (5) TRIPs, an Achilles heel, to bring a WTO case, because to put it bluntly: if members are lax in enforcing other laws, it can be as lax enforcing IPR, without the need to allocate more resources to the enforcement of IPR.

13 80% of all trade mark infringement and unfair competition cases have been dealt with via the following administrative authorities: Administration for Industry and Commerce and the Technology Supervision Bureau, Judy Chan and Ross Parsonage, 'Avoid China's Red Tape Evidence Trap', Managing Intellectual Property, January 2007, available at: <http://www.managingip.com/includes/magazine/PRINT.asp?SID=668816&ISS=23180&PUBID=34>.

14 This is no appeal, but a court ruling in the first instance.

15 State Administration of Industry and Commerce, available at: <http://www.saic.gov.cn/> (Chinese).

16 Amendment of the Trade mark Law adopted on October 27, 2001.

17 The Trade mark Office (TMO), responsible for registration of trade marks and the Trade mark Review and Adjudication Board (TRAB), which deals with trade mark disputes, are both under the control of the AIC, Jay Sha, 'Making the Most of Administrative Actions', China IP Focus, 2006, pg. 46.

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.¹⁸ 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.¹⁹ 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.²⁰ There are more than 3,000 AIC offices with a total staff of 550,000 people in China.²¹ 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 rights holder. AICs operate very quickly²² and in theory do not charge for taking action. A disadvantage of the AICs was that they were prone to local protectionism,²³ but since 1999 efforts have been made to put this under control, according to Andrew Mertha.²⁴

AQSIQ

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.²⁵ Article 8 Product Quality Law makes the Administration of Quality Supervision, Inspection and Quarantine²⁶ (AQSIQ) in charge of ensuring Chinese product quality and standards.²⁷ So if these goods are fake and shoddy that can harm or intentionally deceive the consumer, AQSIQ can claim jurisdiction.²⁸ The departments of AQSIQ, 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,²⁹ that played a role in the production or distribution of the illegal products to the primary infringers. Christopher Smith's perception³⁰ 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 led to a competition that improved the enforcement services of both administrative authorities and has driven their prices down.³¹ According to Mertha both AIC and AQSIQ 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.³² TSBs is less likely influenced by localism, because they are not dependent on management fees. Everybody can file a complaint anonymously at a TSB,³³ which can also take action ex officio.

SIPO

Besides the Product Quality Law, Design rights holders can base their enforcement on the Patent Law.³⁴ In China designs are, together with inventions and utility models, part of the so called inventions-creations, which are protected by the Patent Law.³⁵ Article 3 Patent Law promulgates that the State Intellectual Property Office³⁶ (SIPO) is responsible for the patent work throughout the country, including the enforcement of counterfeit patented products and patent infringement.³⁷ 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_ap/380_383.htm.

20 Civil Procedure Law adopted on April 9, 1991.

21 Bai Gang, 'Enforcement Lessons', China IP Focus 2006, Managing Intellectual Property, pg. 53.

22 "The AIC may undertake a raid within hours of accepting the petition and dispose of a case after one or two days' investigation," according to Bai, see note 21.

23 Because local AICs often depend on infringing companies for management fees and pressure by the local government to maintain employment levels, they sometimes let the infringers off the hook by allowing them not to pay penalties, and giving back their confiscated goods, instead of destroying them.

24 Andrew C. Mertha, 'Testimony to the US-China Economic and Security Review Commission', June 8, 2006, available at: http://www.uscc.gov/hearings/2006hearings/written_testimonies/o6_06_08wrts/o6_06_7_8_mertha_andrew.php.

25 Product Quality Law entered into effect on September 1, 1993 and was amended with effect from September 1, 2000.

26 Administration of Quality Supervision, Inspection and Quarantine, available at: <http://aqsiq.gov.cn> (Chinese).

27 AQSIQ also issues administrative regulations regarding protection of geographic indications separately recognized by China.

28 Andrew C. Mertha, 'Policy Enforcement Markets', 2000, pg. 11, available at: <http://artsci.wustl.edu/~amertha/pdf/RRCP.pdf>.

29 Article 61 Product Quality Law.

30 Christopher Smith, 'Caveat Counterfeiter, China Amends Product Quality Law', Perkins Coie LLP, 2000, available at: <http://www.perkinscoie.com/page.cfm?id=45>.

31 Mertha, see note 28, pg. 6.

32 Mertha, see note 28, pg. 15.

33 Article 10 Product Quality Law.

34 Amended Patent Law adopted on August 25, 2000.

35 Article 2 Patent Law: In this Law, "inventions-creations" mean inventions, utility models and designs.

36 State Intellectual Property Office, available at: http://www.sipo.gov.cn/sipo_English (English).

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.³⁸ The General Administration of Customs³⁹ (GAC) is the highest supervision unit of China Customs. GAC manages customs facilities nation-wide.⁴⁰ It is staffed by over 48,000 people and is responsible for the enforcement of IP, based on the Regulations on Customs Protection of IPR of 2003 (Regulations 2003). China's customs protection applies to both import and export, pursuant to article 2 Regulations 2003, which goes beyond what article 51 TRIPs requires. Whether a rights holder records his IPR with the GAC, makes a difference. If he does, customs can notify him⁴¹ 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.⁴² Recordation may have more advantages,⁴³ but article 15 Rules for Implementing the Customs Regulations⁴⁴ 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.⁴⁵ Yu deems it detrimental to both the private interests of the rights holder and those of the public at large. Therefore, one can argue that recordation is an extra obstacle not mentioned in TRIPs.⁴⁶ However, not recording one's IPR gives the rights holder more control over when and where customs will seize the infringing products. Luke Minford⁴⁷ 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 Bureau⁴⁸ (PBS) is China's equivalent of the police. The People's Procuratorate Bureau⁴⁹ (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,⁵⁰ which distinguishes seven types of IPR infringement as crimes.⁵¹ 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.⁵² Thus Firth recommends to piggy-back on large scale IPR protection campaigns. The second way is launching a private criminal prosecution.⁵³ And the third way is when administrative authorities refer their case to the PBS. Despite provisions in the Trade mark,

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).

40 Brief Introduction to China Customs, General Administration of Customs, available at: <http://english.customs.gov.cn/default.aspx>.

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 IP division of law & regulations at the General Administration of Customs of China, gave the example of a Nike representative that reminded customs officers that Nike products are never transported in the same container as Adidas ones, because they are rivals, Li Qunying, 'Customs' win-win offer', *Managing Intellectual Property*, China IP Focus 2006, pg. 7.

43 Recordation can have more benefits for the right holder: it makes sure that the documents that prove the ownership of the rights are already prepared in case of an infringement; after recordation right holders can enjoy customs' protection at all Chinese ports; recordation prevents inadvertently alerting infringers when they lodge an application to seize goods. Li, see note 42, pg. 4 and 5.

44 Implementation of the Regulation on the Customs Protection of Intellectual Property Rights, became effective on July 1, 2004.

45 Yu Xiang, 'The New Regulations Regarding Customs Protection of Intellectual Property Rights of the People's Republic of China', 7/2005, IIC Volume 36, pg. 840.

46 Then again it may fall within the phrase: "competent authorities may at any time seek from the right holder any information that may assist them to exercise their powers", pursuant to article 58

(a) TRIPs.

47 Luke Minford, country manager of Rouse & Co., 'The Enforcement Tool Box in China presentation' at the IPR in China Conference, London, March 20, 2006, available at: <http://ipdragon.blogspot.com/2006/03/ipr-in-china-conference-london-part.html>.

48 The Public Security Bureau (PSB) see at: <http://www.mps.gov.cn> (Chinese).

49 'Introduction to the People's Procuratorates of the PRC, China Today, available at: <http://www.chinatoday.com/law/a1.htm>.

50 Criminal Law, revised on March 14, 1997.

51 1. Article 213 Criminal Law: counterfeiting registered trade marks; 2. Article 214 Criminal Law: selling goods bearing counterfeited trade marks; 3. Article 215 Criminal Law: forges another's trade marks or sells these representations; 4. Article 216 Criminal Law: forging another person's patent; 5. Article 217 Criminal Law: copyright infringement; 6. Article 218 Criminal Law: selling infringement reproductions; 6. Article 219 Criminal Law: infringing commercial secrets.

52 "In cases involving public safety issues, such as counterfeit food products and pharmaceuticals, or state monopolies, such as tobacco, PSBs will often devote significant resources to investigate infringement and bring criminal actions. In most other cases, however, the IP right holder must generally do all of the investigative work and package the case for the local PSB, which may not have the resources to conduct a thorough investigation," Godfrey Firth, 'The China Business Review, The Best Offence Is a Good Defence and Vice Versa', available at: <http://www.chinabusiness-review.com/public/o601/firth.html>.

53 Article 170 Criminal Procedure Law.

Product Quality and Patent Law that implicitly,⁵⁴ and a provision in the Customs Law that explicitly,⁵⁵ refer to the PBS, less than a percent of the total trade mark and copyright cases handled by administrative authorities were turned over to the PBS for prosecution in 2005.⁵⁶ China acknowledges the problem, reiterated commitments and came up with four guidelines to ensure a timely referral.⁵⁷ 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 Several Issues of Concrete Application of Laws in Handling Criminal Cases of Infringing Intellectual Property⁵⁸ (Interpretation 2004) clarifies this. Compared with two earlier prosecution guidelines,⁵⁹ the Interpretation 2004 has significantly reduced the monetary thresholds for trade marks.⁶⁰ Nevertheless the judicial interpretation was much criticised. It can be argued that the difference in thresholds between enterprises and individuals is arbitrary.⁶¹ The Interpretation 2004 states three controversial methods⁶² for calculating product values produced by infringers, which all undervalue the infringing goods.⁶³ Unlike its predecessors, Interpretation 2004 lacks provisions that criminalise repeat offenders,⁶⁴ the infringement of well-known trade marks,⁶⁵ or trade marks on pharmaceuticals for human use,⁶⁶ and where illegal methods such as bribery are used to

promote the sale of the counterfeit trade marks.⁶⁷ On the other hand the Interpretation 2004 takes into account the values of illegal business volume, 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.⁶⁸

According to Timothy Trainer,⁶⁹ 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.⁷⁰ 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. Deterrence⁷¹ is a relative term; a remedy might be a deterrent for some individuals, while neutral to others,⁷² assuming a correlation with their circumstances and perception.⁷³ 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.⁷⁴ Article 61 TRIPs promulgates in the second sentence that

54 Articles 59 and 62 Trade mark Law and 57, 64 and 68 Patent Law and 50 and 61 Product Quality Law.

55 Article 26 Customs Law.

56 "To illustrate, out of almost 40,000 cases in 2005, local Administrations for Industry and Commerce (AIC's) transferred only 230 cases for criminal investigation," Myron Brilliant, 'US Chamber of Commerce Views on China's Enforcement of Intellectual Property Rights and the Dangers of the Movement of Counterfeited and Pirated Goods into the United States, testimony before the US-China Economic and Security Review Commission', Pg 8, available at: http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_06_07wrts/06_06_7_8_brilliant_myron.pdf.

57 However, "[i]n three of these regulations language is used that seems to give discretion to police to reject cases which meet the numerical thresholds for criminalization on the basis that they are "inconsequential" or otherwise do not warrant criminal action." Brilliant is worried "whether the rules are implemented in a manner that promotes referrals from administrative to criminal authorities where there is a "reasonable suspicion" that the infringer has committed acts which, upon further investigation, would meet the criminal threshold", Brilliant, see note 56, 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 1331st 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 Interpretations of Some Issues Concerning the Application of Laws for 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 thresholds 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 equal or 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 easy for a Chinese citizen to start a company. By doing so he can easily avoid operating above the criminal thresholds.

62 Article 12 Interpretation 2004.

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

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 computed according to the median market prices of such products.

64 Articles 61, 63 and 64 Prosecution guideline impose criminal liability even though numerical thresholds have not been reached, in case an individual has already been subject to administrative penalties on two or more occasions and is now again suspected of infringement. However, there has never been a threshold for the pure repeat offender, who has been subject to administrative penalties only once before.

65 Articles 61 and 63 Prosecution guideline.

66 Article 61 Prosecution guideline.

67 Article 63 Prosecution guideline.

68 Article 12 Interpretation 2004.

69 Timothy Trainer, former president International Anti-Counterfeiting Coalition, representing US industry worth \$ 650 billion, see here: <http://www.iacc.org>.

70 Paraphrasing professor Daniel Gervais in an interview, University of Amsterdam, July 11, 2006. And it might be better for these rules to remain unwritten, because otherwise infringers can easily produce and sell the infringed product in batches, each under the thresholds.

71 A distinction must be made between general and special deterrence: special deterrence is deterring someone who has already offended from re-offending. General offending is dissuading potential offenders of offending at all by way of punishment administered for a particular offence. Definition by Barbara Hudson.

72 Geoffrey York, 'Jail time a mere irritant for Chinese video pirates', *Globe & Mail*, January 7, 2007, available at: <http://www.theglobeandmail.com/servlet/story/RTGAM.20070126.gtibletter26/BNStory/Technology/>.

73 "[...] deterrence theory neglects a growing list of personal traits that appear to predict offending [...]", Daniel Nagin, 'Integrating Celerity, Impulsivity, and Extralegal Sanctions Threats into a Model of General Deterrence: Theory and Evidence', January 2000, pg. 5, available at: <http://www.ssc.wisc.edu/econ/Durlauf/networkweb1/London/Criminology1-15-01.pdf>.

74 "Evidence of substantial recidivism in any legal system shows that that system is not applying "remedies which constitute a deterrent" to the illegal activity being targeted," Hughes, 'Written statement IP Enforcement in China, a potential WTO case, and US-China relations,' June 8, 2006, pg. 10, available at: http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_06_08wrts/06_06_7_8_hughes_justin.pdf.

75 Crimes of a corresponding gravity could be determined by the monetary or physical damage that they cause. Even if China's level of penalties for these crimes is of a corresponding gravity, if not higher than most other WTO members, this would not necessarily lead to a deterrence.

the deterrent should be consistent with the level of penalties applied for crimes of a corresponding gravity.⁷⁵ Having severe and mandatory imprisonment sentences and monetary fines available on the books is not sufficient to provide a deterrent for criminal behaviour.⁷⁶ Research shows that punishment certainty is far more consistently found to deter crime than punishment severity.⁷⁷ This is especially relevant for China, because one of the prosecutorial ways is hardly used⁷⁸ 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.^{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.⁸¹ 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.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 courts⁸³ 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 product⁸⁴ in cities such as Beijing, Shanghai, Guangzhou or Shenzhen so the more reputable Intermediate People's Court located there can decide the case.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 Law⁸⁶ and 60 Patent Law⁸⁷ 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,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.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 rivalling 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.

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

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.

78 The administrative authorities scarcely refer criminal cases to the criminal prosecution, as aforementioned.

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.

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 punishments to make imminence relevant in the deterrence theory. Nagin, see note 73, pg. 3.

81 Article 127 Constitution: The Supreme People's Court supervises the administration of justice by the people's courts at various local levels and by the special people's courts. People's courts at higher levels supervise the administration of justice by those at lower levels.

82 Jiang Zhipei, 'The Institutional and Legal Framework for Protection of Intellectual Property in China, European Inventor of the Year', May 4, 2006, available at: http://www.european-inventor.org/pdf/Day2_Jiang_Black%20white%20oor%20grey.pdf.

83 Wheare, see note 19.

84 Article 29 Civil Procedure Law: An action initiated 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.

85 Wheare, see note 19.

86 Article 56 Trade mark Law provides three methods to calculate the amount of damages based on profit, injury or statutory damage. The plaintiff may elect the method. Article 14 Trade mark Civil Dispute Interpretation explains how the profits of the infringer are calculated.

87 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.

88 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.

89 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,