

Counterfeiting in China: A Great Challenge in Intellectual Property Protection

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Counterfeiting is an increasing problem for Intellectual Property Rights ("IPR") protection throughout the world. Counterfeiting activities are generally related to trademark infringements as the counterfeiters are trying to generate instant benefits from the established trademarks around the world by using such marks without consent. Counterfeit products manufactured in People's Republic of China ("PRC") might be considered as the greatest evidence of IPR law contravention. The national government has not been successful in decreasing the large number of counterfeiting cases. Therefore, in this article, the counterfeiting in the PRC will be examined initially in order to verify the fundamental concerns and the significantly influential factors in combating counterfeiting. Possible solutions are suggested and considered along with the other issues so that counterfeiting problems may gradually be reduced within the country.

Keywords: Counterfeiting, Intellectual Property Rights, People's Republic of China

I. Introduction

Counterfeiting is an increasing problem for Intellectual Property Rights ("IPR") protection worldwide. According to seizures statistics in several countries, the global market is flooded by counterfeit products.² Furthermore, counterfeiters are increasingly using information technology such as Internet and free trade zones to facilitate the distribution of fake products and to avoid seizures at the border.³ This illegal activity has grown rapidly because the activities offer huge profits and low risk.⁴ Counterfeiting ac-

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2 Terence P Stewart et al, *The Crisis in Intellectual Property Protection and China's Role in that Crisis* (2007) 10-11, 60-5 <<http://www.uscc.gov/researchpapers/2008/TLAG%20Report%20-%20Crisis%20in%20IP%20Protection%20and%20China%27s%20Role.pdf>> at 6 June 2009.

3 Ibid 5 and 12.

4 The Office of the United States Trade Representative ("USTR"), 2009 Special 301 Report (2009) 4.

tivities are generally related to trademark infringements as the counterfeiters are trying to generate instant benefits from the established trademarks around the world by using such marks without consent.⁵

Counterfeit products manufactured in People's Republic of China ("PRC") are considered as the greatest evidence of IPR law contravention.⁶ This shows the lack of IPR protection in PRC since the national government has not been successful in decreasing the large number of counterfeiting cases. Despite the progress of IPR laws and regulations, PRC still has to overcome difficulties in enforcing IPR legislation in order to decrease the level of counterfeiting.

Accordingly, counterfeiting in the PRC will be examined initially in order to verify the fundamental concerns and the significantly influential factors in combating counterfeiting. Possible solutions are suggested and considered along with the other issues so that counterfeiting problems may gradually be reduced within the country. The international IPR protection, namely, the TRIPS Agreement, will be examined and Chinese IP law, especially the Trademark Law ("Trademark Law") and its accompanying regulations, will be found to be broadly in compliance with TRIPS. The administrative authorities and judicial system in PRC are also further analysed in light of the requirements prescribed in TRIPS to protect and enforce IPR.

II. Counterfeiting in People's Republic of China

Counterfeiting in PRC is growing rapidly due to several reasons: firstly, counterfeiting results in economic benefits as it accounts for approximately eight percent of PRC's gross domestic product⁷; secondly, foreign IPR holders and their governments are reluctant to take drastic measures to confront PRC government due to the threat of retaliation; and last, counterfeiting is vital to the economy of many local municipalities in which millions of people are involved in the counterfeiting industry.⁸ The effects of counterfeiting and piracy are wide-ranging include trade, foreign in-

⁵ See Annex 1C Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS") footnote 14(a) in Agreement Establishing the World Trade Organization.

⁶ Stewart, above n 1, 1-2.

⁷ Daniel C K Chow, 'Counterfeiting and China's Economic Development' (2006) written testimony.

⁸ Daniel CK Chow, 'Why China Does Not Take Commercial Piracy Seriously' (2006) 32 Ohio Northern University Law Review 203, 203-5.

vestment, employment, innovation, criminality and the environment.⁹ On the other hand, the micro economic effects encompass the sales volume, prices and costs of rights holders, investment, royalties and brand value.¹⁰ The macro and micro economic effects do not only affect PRC as the safe haven of counterfeiting but also affect other countries which have been supplied with the counterfeit products and their international brands are infringed by the counterfeiters. Moreover, counterfeiting is allegedly linked with organized crime in which their unlawful activities such as human trafficking, drug operations, and terrorism are financed by selling counterfeit products.¹¹

A. Significant Factors in Combating Counterfeiting

A number of aspects contribute to the problem of counterfeiting which generate from various parties. Nevertheless, those aspects in fact comprise in several significant factors which increasingly enlarge the scope of counterfeiting. These factors would be further explained below to clarify the counterfeiting problem in PRC.

1. Legislation

A more convincing and effective law enforcement in PRC is urgently required to halt the manufacture, import, export, transit, and distribution of counterfeit products.¹² A set of laws and regulations therefore need to incorporate various counterfeiting-related activities so that such legislations may be effectively enforced to suppress the high level of violations. The *Criminal Law of the People's Republic of China*¹³ ("Criminal Law") and its accompanying regulations have in fact governed a specific chapter in accommodating IPR infringement particularly trademark counterfeiting related crimes¹⁴ and the sentencing guidelines.¹⁵ Nonetheless, these provisions are deemed to restrictedly entrench the criminal liability for counterfeiters as they may escape from accusation if their businesses value is under the

9 OECD Publishing, *The Economic Impact of Counterfeiting and Piracy* (2008) 133.

10 Ibid.

11 Stewart et al, above n 1, 58-9.

12 USTR, above n 3, 5.

13 Adopted by the Second Session of the Fifth National People's Congress on July 1, 1979 and amended by the Fifth Session of the Eighth National People's Congress on March 14, 1997.

14 See the Criminal Law arts 213, 214, and 215.

15 Omario Kanji, 'Paper Dragon: Inadequate Protection of Intellectual Property Rights in China' (2006) 27 *Michigan Journal of International Law*, 1273. See also the Criminal Law art 140; the Interpretation of the Concrete Application of the Law in Handling Criminal Cases of Intellectual Property Infringement ("2004 Judicial Interpretations").

prescribed levels.¹⁶ The legislation barriers would give incentives to the current and future perpetrators as they may still run their illegal businesses as long as they are able to maintain the business value under the thresholds. The judicial authorities may also ignore other significant elements by only strictly apply these thresholds to initiate criminal proceedings. These possibilities degrade the critical role of criminal enforcement mechanism to discourage and prevent counterfeiters in conducting criminal acts since the criminal authorities should impose more severe punishments as a deterrent effect towards future perpetrators.

Accordingly, the *Criminal Law* is immediately needed to be revised and amended by the legislative authorities as the recent criminal thresholds used for imposing liability to counterfeiters are considered as insufficiently deterring the current and future counterfeiting activities. PRC government must take counterfeiting into account as a serious crime which does not have to satisfy the high thresholds and obtain only the low-specified level of imprisonment. By criminalizing counterfeiting without any particular requirement or numerical threshold to be met, the prosecution of perpetrators is considered to be more likely effective in the fight against counterfeiting. A comprehensive law exclusively establishes the counterfeiting as a crime may be needed to more effectuate the investigation and prosecution against counterfeiters. Furthermore, the judicial authorities may be more willing to fight the counterfeiting as the legislation has been appropriately provided to capture and prosecute the alleged counterfeiters.

2. Governmental Policy

Any significant progress in combating counterfeiting requires a political will from the national leaders along with the commitment of resources necessarily provided to implement a massive crackdown.¹⁷ A robust political commitment from the highest leader in PRC should be undertaken to overcome local protectionism and counterfeiting-engaged governments.¹⁸ PRC government is deemed to lack a political will to engage in a crackdown on counterfeiting or to make any meaningful progress in addressing the problem.¹⁹ The national leader of PRC therefore must be convinced that 'counterfeiting is an urgent problem that seriously harms the national in-

16 See 2004 Judicial Interpretations arts 1, 2, 3, and 12.

17 Chow, 'Why China Does Not Take Commercial Piracy Seriously', above n 7, 224.

18 Daniel C K Chow, 'Counterfeiting in the People's Republic of China' (2000) 78 Washington University Law Quarterly 1, 39.

19 Chow, 'Why China Does Not Take Commercial Piracy Seriously', above n 7, 222.

terests²⁰ so that PRC may voluntarily evaluate the appropriate calculation of political and social costs to initiate crackdown on counterfeiting. The international communities therefore must engage in providing information on the negative effects of counterfeiting so that the national government would consider the crackdown on counterfeiting.

Considering a huge impact of government policy towards the Chinese people²¹, the central government may also utilize such power to increase public awareness of counterfeiting. The considerable anti-counterfeiting policy need to be created by which the government officials and common people would properly response to the fight against counterfeiting. Given the large effect of political will, such power is considered to more adequately uphold the anti-counterfeiting campaign throughout the country as it is ordered by the highest level of government.

The national government also has to resolve the gap among the regions as they generate discrepancies in political and economical policies. The decentralization system must be accompanied with the retained control and supervision of central government towards local organizations. Thus, they would not misuse their authorities to engage in counterfeiting business by gaining benefits and to fully support such activity by degrading the law enforcement towards the counterfeiters. The governmental policy would therefore play an important role to clarify the relationship between local governments and central government and also compel the active function of local governments in combating counterfeiting.

3. Local Governments

The central government has committed to enforce IPR laws, however, the local governments which practically implement the laws are deemed to develop their own 'local autonomy'.²² Many leaders of local governments treat the judicial authorities as their subordinate divisions of their governments.²³ The judges tend to be bias in concluding judgments in favor of parties supported by local committees or local people's congresses.²⁴ They do not have tenure which may protect them from financial crisis if their

²⁰ Chow, 'Counterfeiting in the People's Republic of China', above n 17, 40.

²¹ PRC leader has once released a surprising decision in crackdown on smuggling. See especially *ibid* 42-44.

²² Dina M Bronshtein, 'Counterfeit Pharmaceuticals in China: Could Changes Bring Stronger Protection for Intellectual Property Rights and Human Health?' (2008) 17 *Pacific Rim Law & Policy Journal* 439, 459.

²³ *Ibid* 461.

²⁴ *Ibid*.

decisions do not satisfy the local government.²⁵ By establishing a rigid framework of judicial enforcement concerning counterfeiting to be implemented by local governments, the excessive power undertaken by the local governments may be minimized and therefore the courts would be more independently handle and examine the counterfeiting cases.

Moreover, the status and salary of judges are low so that they are more likely to take a bribe from the counterfeiters in exchange for a more favorable decision in an infringer's favor.²⁶ The corruption and low level of professionalism become increasingly major concerns in combating counterfeiting. These concerns may hinder the IPR holders to retain justice and fairness for their losses because of counterfeiting in addition to the reduction of trustworthiness towards PRC government in compelling the laws and regulations. The counterfeiters may also find such concerns would make them easier to flee from criminal liability if they can provide financial solutions for law enforcement officials. The national government should carefully address these problems by providing more adequately financial resources and technical assistance so that the officials would hardly be deceived by the financial threat. A new campaign against corruption would need to be carried out along with the fight against counterfeiting.

Inadequacy of human resources in local administrative and judicial authorities is another problem should be considered and solved by the central government along with insufficient knowledge of counterfeiting. These technical problems would create new obstacles for judicial system as the counterfeiters may be hampered to the prosecution due to lack of competent officials in handling infringement cases. The national government may increase IPR trainings for law enforcement officials around the country to provide them with sufficient knowledge of counterfeiting problem in addition to open recruitment in acquiring new personnel.

4. Landlords Liability Mechanism

Retail and wholesale trademark counterfeiting in PRC become the acute issue for international brand owners. Beijing Silk Market is one of the greatest wholesale markets in PRC which is famous for its fake products. A number of luxurious brands such as Prada, Chanel, Louis Vuitton, Gucci, and Burberry recently won a case in Beijing High People's Court against the Silk Market.²⁷ Both parties established a settlement which con-

²⁵ Ibid.

²⁶ Ibid.

²⁷ Kanji, above n 14, 1279.

fer the obligation on market operators to timely and effectively cease the infringing conduct upon the exclusive rights of others' for the use of registered trademarks within the market.²⁸ The market operators which are proved to provide suitable conditions for the infringing conduct should be jointly and severally liable for the result of infringement.²⁹

The Silk market case established a landlord liability mechanism in which the market operators is obliged to appropriately and effectively prevent trademark infringements within their markets.³⁰ This newly introduced liability is considered to be a more effective and significant method to minimize the dispersion of counterfeit products in retail and wholesale markets. Application of landlord liability enforcement throughout the country would provide more adequate solution against counterfeiting since the market operators bear liability not to engage in counterfeit business by supervising their vendors' businesses. This mechanism is considered to effectuate role of third party in taking initiative action against counterfeiting.

III. Intellectual Property Protection in People's Republic of China

A. Conformity of the Trademark Legislations with the WTO Agreement on Trade-Related Intellectual Property Rights ("TRIPS")

By obtaining World Trade Organization ("WTO") membership on December 1, 2001, PRC is directly obliged to comply with the principles and rules prescribed by WTO, *inter alia*, the general provisions and international trade norms, including IPR standards.³¹ TRIPS is a benchmark for evaluating the adequacy of PRC's IPR laws and therefore PRC's IPR legislation is generally consistent with the international standards.³² Nevertheless, the crucial issue for PRC lies not in the enactment of new laws, but in the application of existing laws.³³ The establishment of law enforcement framework governed by TRIPS cannot be accomplished without "guaran-

28 Zhou Xiaobing, A Series of Cases Concerning the Silk Street: Foreign Brands Attacking Chinese "Counterfeit Goods" and the Liability Problem (2007) China Intellectual Property Magazine <<http://www.chinaipmagazine.com/en/journal-show.asp?id=158>> at 7 June 2009.

29 Ibid.

30 Ibid.

31 Bronshtein, above n 21, 458-9.

32 Wei Shi and Robert Weatherley, 'Harmony or Coercion: China-EU Trade Dispute Involving Intellectual Property Enforcement' (2008) 25 Wisconsin International Journal 439, 443. PRC has joined several international agreements to protect intellectual property rights.

33 Ibid.

teed effectiveness” of the members’ law enforcement system.³⁴ Inadequacy of IPR enforcement is a fundamental factor in combating counterfeiting and there are a number of legal obstacles to effective enforcement that result in limited deterrence provided by PRC law.³⁵ Those obstacles comprise in the rigid and ambiguous laws and regulations as well as the enforcement procedures by which the administrative, civil and criminal authorities handle and examine IPR infringement cases. The insufficient and ineffective of the existing IPR laws and regulations in more appropriately equipping the law enforcement agencies would hamper the fight against counterfeiting.

The actual level of IPR enforcement procedures and remedies depends on the national implementation and on the individual members’ interest in adopting measures which govern beyond TRIPS required obligations.³⁶ PRC is therefore deemed to be failed in implement those provisions both in legislation and practices since a large number of IPR infringements still are not referred to proper enforcement measures and the central government has not yet considered the IPR enforcement incorporated in its national interest scheme. There are several reasons why the enforcement of IPR laws is not adequate in PRC; first, the laws do not give strong punishments to deter counterfeiters from ongoing infringements; second, local autonomy has led to corruption in both the local government and the judiciary; third, inadequate judicial transparency and independence; and last, insufficient resources allocated in both judicial and administrative sectors.³⁷ As several factors have been discussed above, this part would particularly focus on the administrative and judicial authorities.

1. Administrative Procedures

PRC law is restricted to the investigation and imposing penalty powers of the administrative authorities since most of IPR infringement cases referred to them.³⁸ The effectiveness of administrative authorities are also calculated from the transfer of cases to the procuratorial authorities

³⁴ Peter-Tobias Stoll et al (eds), *Trade-Related Aspects of Intellectual Property Rights* (2009) 689.

³⁵ USTR, above n 3, 14.

³⁶ OECD Publishing, above n 8, 198. See also TRIPS Part III.

³⁷ Bronshtein, above 21, 451-2.

³⁸ IACC, *Submission of the International AntiCounterfeiting Coalition to the United States Trade Representative: Special 301 Recommendations* (2009) 10 <http://www.iacc.org/resources/IACC_2009_SPECIAL_301_Recommendations.pdf> at 8 May 2009.

in which PRC still lacks of intensive cooperation between the police and administrative authorities in initiating criminal cases.³⁹ The administrative authorities may be reluctant to transfer trademark infringement cases since prosecutor is deemed to engage only in "big and serious" criminal contraventions as well as the high criminal thresholds to be met for constituting a crime.⁴⁰ These barriers must be removed to effectuate the role of administrative authorities as the first base in handling trademark infringements.

The administrative authorities can mediate disputes and impose administrative penalties⁴¹ to enforce the *Trademark Law*, for instance, power to issue cease and desist orders to stop infringing acts, and to confiscate and destroy infringing goods. However, they do not have the authority to issue preliminary injunctions or to award damages which are reserved for civil and criminal cases handled through the People's court.⁴² Accordingly, administrative agencies may be considered to be unsuccessful to protect IPR holders even they have power to fine the infringers. They cannot give compensation and there are shortages of available financial resources and trained staffs to undertake the enforcement.⁴³ Local governments in PRC provide the financing necessary to operate administrative agencies so that they are reluctant to enforce penalties due to financial benefits rendered for local communities.⁴⁴ By providing adequate financial resources and training, they may independently enforce the administrative penalties and therefore provide effective measure against IPR infringement.

The administrative authorities may still continue their cooperative work with trademark holders since they are the front liners for brand owners to handle and settle the infringement cases. They just need to be granted extensive power to investigate violations and to impose higher fines which adequately addressing infringing acts by counterfeiters so that they may prevent further contraventions more effectively. Additionally, upgrading the allocation of personnel and resources is urgently undertaken since numerous cases would come to them unexpectedly since the administrative authorities are still considered as the most effective way to encounter trademark infringements.

39 Ibid.

40 See below under Criminal Procedures section.

41 See the Trademark Law art 54; the Implementation Regulations art 52.

42 Anne M Wall, 'Intellectual Property Protection in China: Enforcing Trademark Rights' (2006-2007) 17 *Marquette Sports Law Review* 341, 381.

43 Bronshtein, above n 21, 454-5.

44 Ibid.

2. Civil Procedures

Civil enforcement agency must be considered as a significant stakeholder in adjudicating IPR infringement as it may give more effective deterrence against counterfeiters by compelling them to pay 'substantial damage awards' to IPR holders.⁴⁵ Article 45.1 of TRIPS is a mandatory provision⁴⁶ in which judicial authorities in PRC must have the power to award fault-based damages upon the right holder's request against infringers which adequate to the injury suffered by the right holder. Damages are considered as adequate if they fully compensate for the damage suffered.⁴⁷ Pursuant to PRC law, the trademark holders may ask for monetary compensation calculated by specific methods⁴⁸ which in fact does not render adequate damages since the courts just calculate the damages in accordance with infringer's profit or right holder's suffered loss. The infringers therefore would easily consider the low compensation to be paid as the cost of doing business.⁴⁹

Accordingly, the civil litigation should function as a fair and equitable procedure⁵⁰ for trademark holders who seek for damages equal to their losses. The low compensation would undermine the eligibility of civil courts to render more severe order towards the infringers and therefore civil actions would only serve as the supplementary resort for trademark holders in obtaining relief in terms of the unsatisfactory decisions rendered by the administrative authorities. An initiative must be undertaken by civil courts in effectuating the higher and more adequate civil remedies against the infringers along with interpretation of the law and regulations which indicating adequate compensation to be appropriately implemented.

Furthermore, the higher degree of transparency in civil procedures would create 'a fair and equitable environment' for private parties to protect their rights and therefore enhance the IPR enforcement.⁵¹ By publishing civil courts decisions and the evident application of substantive law, the effectiveness of civil procedures would be improved.⁵² The lack of transparency in civil actions impedes the remedial function of civil enfor-

45 Chow, 'Counterfeiting in the People's Republic of China', above n 17, 39.

46 Stoll et al (eds), above n 33, 719.

47 Ibid 721.

48 See the Trademark Law art 56; the Interpretation by SPC of Several Issues Relating to Application of Law to Trial of Cases of Civil Disputes over Trademarks 2002 arts 14, 15, and 16.

49 Chow, 'Counterfeiting in the People's Republic of China', above n 17, 36.

50 See TRIPS arts 42.

51 Thomas E Volper, 'TRIPS Enforcement in China: A Case for Judicial Transparency' (2007) 33 Brooklyn Journal of International Law 309, 313.

52 Ibid 319.

cement towards the IPR holders. PRC government has improved its judicial transparency mechanism by creating a website and providing several judgments online.⁵³ This effort must be continuously maintained as more civil disputes are available would upgrade the public trustworthiness of capability owned by civil authorities to enforce the IPR holder's interest.

Preliminary injunctions are provisional measures which are complied with art 50 of TRIPS.⁵⁴ PRC has implemented preliminary injunction⁵⁵ which is actively granted upon the plaintiff's request. Such measure is provided for trademark infringement cases, particularly counterfeiting, which can be applied before or shortly after initiating the lawsuit.⁵⁶ By granting preliminary injunctions, the civil courts would more effectively handle trademark infringement cases as the infringers would foresee the disadvantageous consequences towards their businesses. The cautiousness of infringers as to injunctions brings a positive signal as the civil proceedings would engage more intensively in empowering the IPR law enforcement mechanism.

3. Border Measures

Border measures⁵⁷ are applicable by acknowledging the most effective method of counteracting product piracy is preventing infringements directly at the source.⁵⁸ Accordingly, PRC Customs must strengthen and maintain good efforts undertaken recently by making greater cooperation with IPR holders and relevant authorities. Customs authorities also need to empower coordination with foreign customs and law enforcement authorities in preventing and investigating trademark infringements so that they may cooperatively exchange information and provide assistance in handling IPR infringements.

The customs authorities take *ex officio* actions only randomly and mainly for the purpose of supervision and imposition of duties and charges.⁵⁹ This particular mechanism must be earnestly implemented in PRC since a large number of counterfeit products are exported. Customs officials there-

53 Xiong Xuanguo, 'Intellectual Property Rights Protection through Criminal Justice in China, Current Situations and Prospects' (Speech delivered at the Third Global Congress on Combating Counterfeiting and Piracy, Geneva, January 30 and 31, 2007).

54 Stoll et al (eds), above n 33, 716.

55 See the Trademark Law art 57.

56 Peter K Yu, 'From Pirates to Partners (Episode II): Protecting Intellectual Property in Post-WTO China' (2006) 55 American University Law Review 901, 911.

57 See TRIPS art 51.

58 Stoll et al (eds), above n 33, 752.

59 Ibid 775.

fore need to be fully authorized to prevent any possibly counterfeiting acts by exercising *ex officio* actions and yet still need restrictions so as not to excessively exercise such authority.

Pursuant to art 59 of TRIPS and WTO Panel decision⁶⁰ regarding handling seized counterfeit products by Customs; PRC government has to revise their regulations since the former provision⁶¹ allows seized counterfeit goods to be publicly auctioned after only removing the infringing mark.⁶² The auction of counterfeit products is not acceptable since it would harm the IPR holders and consumers. Moreover, it would foster the counterfeiting acts as the counterfeiters may think that the counterfeit products are still allowed in trade. By reinforcing the destruction of counterfeit products, Customs would contribute in reducing the possibility of far-spreading circulation of goods and misuse of such goods by unauthorized parties.

4. Criminal Procedures

Criminal enforcement is acknowledged as the most effective deterrent mechanism against counterfeiting.⁶³ Pursuant to art 61 of TRIPS, however, criminal laws and procedures in PRC hamper the enforcement mechanism as they provide high value and volume thresholds to be met for IPR infringements as well as difficulties in initiating or transferring cases to the criminal authorities that fulfill thresholds for criminal prosecution.⁶⁴ Additionally, the reluctance of administrative authorities to transfer criminal cases arises due to shortage of explicit guidelines, insufficiency allocation of financial and human resources, local interests, and corruption.⁶⁵ The criminal authorities in PRC have not also succeeded in rendering severe punishment to discourage the current and future counterfeiters since the legislation provides restricted possibility in prosecuting perpetrators. Those factors clarify the small number of trademark infringement cases handled by criminal authorities which indicating the criminal procedure still remains as an ineffective course in combating counterfeiting as well as trademark infringements.

60 See China – Measures Affecting the Protection and Enforcement of Intellectual Property Rights, WTO Doc WT/DS362/R (2009) [7.394] (Report of the Panel)

61 See the Customs IPR Regulations art 27; the Implementing Measures art 30.

62 See Public Notice No. 16/2007 of GAC.

63 Daniel C K Chow, 'Counterfeiting in the People's Republic of China', above n 17, 33.

64 USTR, above n 3, 14. See also the Trademark Law arts 56 and 59; the Criminal Law arts 213-215.

65 Jessica Jiong Zhou, 'Trademark Law & Enforcement in China: A Transnational Perspective' 20 Wisconsin International Law Journal 415, 436.

The *Trademark Law* therefore needs to be reformed as those provisions fail to address the IPR protection and enforcement against counterfeiters. As the magnitude of counterfeiting enormously affect a large number of stakeholders, the *Trademark Law* must accommodate a higher level of trademark infringement so as to adequately capture the alleged counterfeiters. In order not to overlap with the Criminal Law, the proposed revision of Trademark Law does not provide any provision regarding trademark infringements as such violations would be referred to a specific and comprehensive law establishing counterfeiting. This proposed law would adequately address the counterfeiting problem as well as the trademark infringements by providing different levels of contraventions without any restricted thresholds. This law should also address repeat offenders provisions which accommodate the range of unlawful counterfeiting-related activities.

As the administrative authorities discourage to transfer cases, the police agencies must engage actively by commencing investigation of alleged infringements. The police authorities therefore must be strengthened by more appropriate investigative power so that they may effectively handle any infringements both transferred and *ex officio*. Police agencies initiative would enhance the enforcement mechanism as they play an important role to establish and furnish infringement cases to be brought before the courts. They must also cooperate with prosecutorial authorities as both parties may exchange information and give assistance to more effectively handle and establish cases. These mutual relationships would undeniably enhance the function of criminal proceedings to bring justice and fairness towards trademark holders.

Discretionary decisions acquired by the criminal authorities have also led to disappointing results because there is reason to believe that some courts do not fully appreciate the seriousness of the crime and do not impose appropriate sentences.⁶⁶ These indications must be rebutted by performing more effective proceedings against counterfeiters by rendering more severe punishments. The courts must therefore aggressively curb the perpetrators by providing sincerity in commencing criminal proceedings and also more adequately compelling sentences against infringers.

In addition, PRC is encouraged to apply the private criminal prosecution in which the right holders are permitted to pursue criminal sanc-

⁶⁶ Louis Harms, 'The Enforcement of Intellectual Property Rights by Means of Criminal Sanctions: an Assessment' (Paper presented at the Advisory Committee on Enforcement WIPO, Geneva, November 1 and 2, 2007), 47.

tions against smaller-scale violations.⁶⁷ This mechanism is considered to more effectively address various infringement cases. The judicial officials should exercise such mechanism appropriately in order to enhance the IPR protection using criminal procedures. By appropriately handling and prosecuting any criminal matters brought by the trademark holders, trustworthiness towards criminal enforcement is gradually established so that criminal authorities would enlarge the scope of relief may be pursued by the trademark holders.

Ultimately, the establishment of criminal provisions may play a crucial role in cases where civil proceedings against infringers take more time or where the restraint of further infringements seems more important than providing compensation for already existing damage.⁶⁸ The criminal law enforcement agencies therefore must engage in combating counterfeiting by more aggressively exercising their powers and authorities to eventually upgrade the level of criminal proceedings as the most adequate course providing effective deterrence.

IV. Conclusion

Counterfeiting remains as a major challenge for foreign IPR holders and governments as well as for PRC and its citizens. The increased trend of counterfeiting in PRC may be overcome by addressing several significant factors which contribute to the magnitude of such problem. Nevertheless, PRC has failed in effectuating those factors due to a number of shortcomings. While the legislation inadequately accommodates counterfeiting as a serious crime, the central government is deemed to lack of political will in addressing such problem within the national interest. Furthermore, the local governments override their functions to implement the laws and to exercise the enforcement mechanism as in fact they obtain benefits from counterfeiting business. The newly established landlord liability mechanism therefore promotes a more convincing solution in addition to the new proposed law of counterfeiting and upgraded functions of central and local governments by which counterfeiting may gradually be alleviated.

Concerns of the scope and volume of counterfeiting also raise the issue of IPR protection and enforcement since such activity infringes the right of

⁶⁷ IACC, above n 37, 19.

⁶⁸ Stoll et al (eds), above n 33, 782.

trademark holders. By examining the trademark law and its accompanying regulations as well as the administrative and judicial authorities, PRC has not earnestly empowered their resources to combat counterfeiting due to its lack of IPR protection and enforcement mechanism as required by TRIPS. Despite the conformity of IPR law with TRIPS, the law enforcement authorities have not adequately implemented the necessity of providing the most adequate and effective course for IPR holders against the counterfeiters. Accordingly, many aspects must be reformed in order to achieve the satisfactory outcome so that IPR enforcement would be enhanced and counterfeiting is progressively reduced in PRC.

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