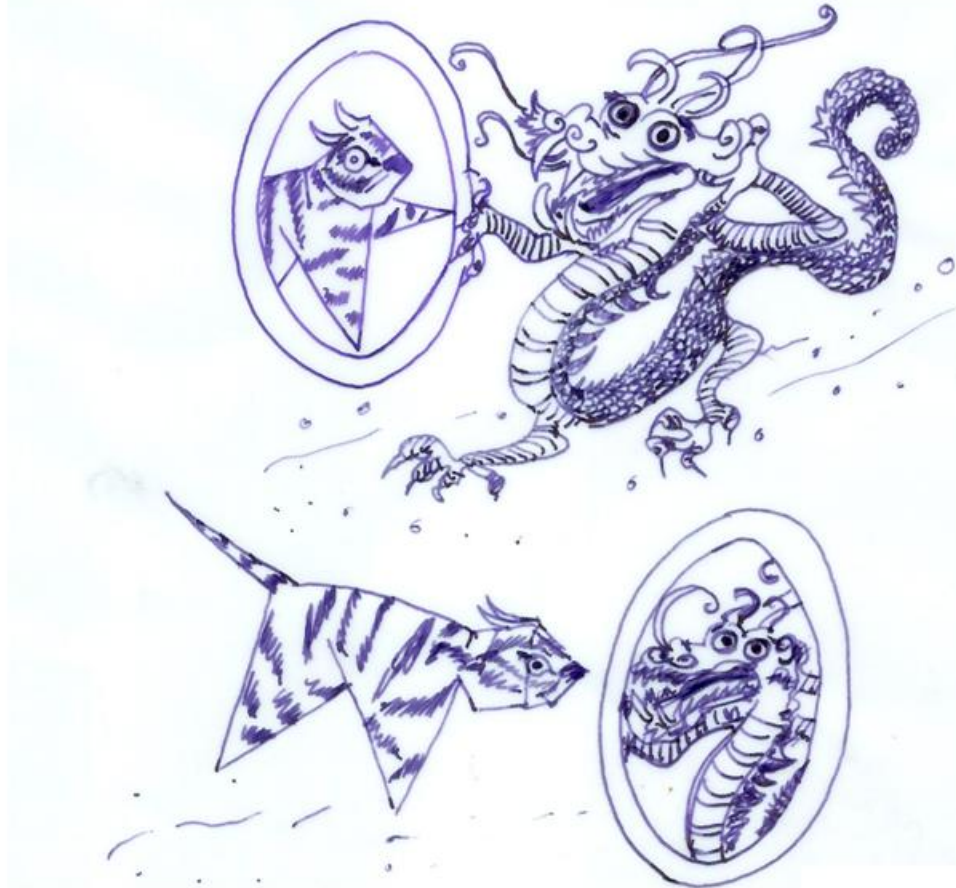


Paper Tiger or Roaring Dragon

China's TRIPs Implementations and Enforcement



July 10, 2007

Danny Friedmann

Thesis Master's Degree

University of Amsterdam

Thesis advisor: Professor P. Bernt Hugenholtz

Professor Peter K. Yu

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Abstract

Paper Tiger or Roaring Dragon

China's TRIPs implementations and enforcement

Thesis about whether China's IPR enforcement laws are TRIPs compliant.

At least on paper most of China's IPR procedural laws are compliant with specific TRIPs provisions. China's IPR laws are certainly non-compliant to the more general provisions of TRIPs, due to incompatible extra-judicial factors. Nevertheless, no unequivocal preference for a WTO case against China can be given. Another option, although more complicated, to tackle China's IPR enforcement challenges is to be preferred: to address China's transparency, market access, uniform application of law, integrity and impartiality of the courts and expertise in and respect for IPR.

Preface/Acknowledgments

Referring to the enforcement of IP in China, the title of this thesis juxtaposes a symbol of impotence¹ with that of the dragon²; which has been a symbol of China's power for 7,000 years. China struggles to balance its interests with those of the international community. On the one hand the Chinese State Administration for Radio, Film and Television deemed the dragon worthy to protect; it forbade a Nike advertisement that used the Chinese dragon. The ad allegedly violated article 32 Regulation on Radio and Television 1997, which mandates that all advertisements in China should uphold national dignity, and interests and respect the Motherland's culture. On the other hand the era of the dragon might come to an end, because of the alleged connotations of aggression foreigners might have with this creature³. This manifests China's volatile legislation and dual forces that are driven by its national interests and foreign interests. This is a fortiori the case in the protection and enforcement of IP in China, since China has committed itself to several international obligations, including the Agreement on Trade-related Aspects of Intellectual Property. Allegations were frequently aired that China was not compliant to this treaty. The purpose of this thesis is to give a substantiated answer to this question, conscious of this author's Western perspective and education in the civil law tradition of the Netherlands.

In preparation, this author started a weblog in 2005. It is called IP Dragon, which gathers, comments and shares information about IPR in China, to make this field of law more transparent. After attending a conference on IPR in China, in London, where Connie

¹ On July 14, 1956 Mao Zedong said about the US: "In appearance it is very powerful, but in reality it is nothing to be afraid of, it is a paper tiger", 'US Imperialism is a Paper Tiger', Transcription by the Maoist Documentation Project, 2004, available at:

http://www.marxists.org/reference/archive/mao/selected-works/volume-5/mswv5_52.htm.

² Li Jian, 'Nike's dragon-insulting ad sparks controversy' Shanghai Star, re-published in China Daily, December 22, 2004, available at: http://www.chinadaily.com.cn/english/doc/2004-12/22/content_402383.htm. And on the other hand, the dragon might retire as national symbol altogether, after the article of professor Wu Youfu of the Shanghai International Studies University 'On branding the Chinese national image'. It was already left out as one of the five Olympic mascots, that were presented in 2006, Joel Martinsen, 'Dragons and branding', Danwei, December 6, 2006, available at: http://www.danwei.org/trends_and_buzz/dragons_stones_conspiracies.php.

³ See note 2.

Carnabuci, partner of Freshfields Bruckhaus Deringer of Hong Kong, Douglas Clark, partner of Lovells in Shanghai and Luke Minford, head of China operations of Rouse & Co. International, among others, spoke; interviewing several law professors, including professor Justin Hughes of Cardozo Law School, Yeshiva University of New York and professor Daniel Gervais of Ottawa University; and more than five hundred postings, IP Dragon has cumulated relevant case law, laws, regulations and judicial interpretations and received interesting feedback from experts in the field, including Joseph Simone, partner of Baker & McKenzie in Hong Kong, Stan Abrams partner of Lehman, Lee & Xu in Beijing and Dan Harris partner of Harris & Moure in Seattle. All laws, regulations and judicial interpretations mentioned in this thesis can be accessed in English via IP Dragon.

In this thesis the author reflects upon the possibility for countries to start a WTO case against China in case of non-compliance with TRIPs. Just when this thesis was finished, China came out with a new judicial interpretation that lowers the numerical thresholds and increases the scope of crime by clarifying the term “reproduction and distribution” in Article 217 Criminal Law, to mean “reproduction and/or distribution”⁴. Besides, China presented a comprehensive new action plan on IPR protection⁵. These measures were possibly promulgated in an attempt to avert formal WTO complaints by the US. To no avail, because this possibility became a reality on April 10, when the US requested consultations with China based on two, interrelated, WTO cases⁶. Because of this dynamism in subject matter, the newest developments on IP in China will be followed on IP Dragon. Mindful of the open source movement, the thesis will be put online in the Summer of 2007, which is an invitation to criticise the assertions made and to come up with dissenting opinions.

⁴ Respectively, articles 1 and 2 Interpretation of the Supreme People’s Court and the Supreme People’s Procuratorate on Several Issues in the Concrete Application of the Law in Handling Criminal Cases of Intellectual Property Infringement, adopted at the 1422nd meeting of the Adjudication Commission of the Supreme People’s Court and 75th meeting of the Supreme People’s Procuratorate, April 4, 2007; effective April 5, 2007, draft version available at: <http://ipdragon.blogspot.com/2007/04/draft-judicial-interpretation-several.html>.

⁵ Action Plan on IPR protection 2007, April 6, 2007, available at: <http://zgb.mofcom.gov.cn/aarticle/az/k/200704/20070404541058.html>.

⁶ The WTO cases are: China – Measures affecting the protection and enforcement of intellectual property rights, Request for Consultations by the United States, WT/DS362/1 and China - Measures Affecting Trading Rights and Distribution Services for Certain Publications and Audiovisual Entertainment Products - Request for Consultations by the United States, WT/DS363/1.

This author expresses his gratitude to all the above-mentioned experts for their insights and guidance in IP in China and TRIPs, and especially to professor Hugenholtz, director of the Institute for Information Law of the University of Amsterdam, who inspired this author to pursue a career in IP.

Introduction

The enforcement of intellectual property in China is of crucial importance to all economies in the world. US officials estimate the costs for companies⁷ around the globe of China's counterfeit and piracy exports as between US \$ 50⁸ and 60 billion⁹ a year. Douglas Clark¹⁰ ominously prophesied at the IPR in China Conference in London in 2006¹¹ that any company will sue or will be sued for IP infringement in China in the next 5 years. In other words: the clock is ticking. What relief can the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPs) bring in this matter?

Since China joined the World Trade Organisation (WTO) in 2001 and automatically had to comply with TRIPs it is still not only the number one source, but the source of the majority of counterfeit and pirated goods in the world in 2006¹². The allegations that China's IPR system does not comply with TRIPs can be heard repeatedly by governments of the US¹³, EU, Switzerland and Japan and by industry group lobbyists. This mantra is followed alternately by Chinese reiterations of its commitments that enforcement will improve^{14 15 16 17} and apologetic utterances^{18 19} or outright denial²⁰.

⁷ This excludes the lost tax revenues for governments, lost employment, and extra costs for health and safety.

⁸ "U.S. officials say its exports cost legitimate producers worldwide up to \$50 billion a year in lost potential sales," Associated Press, 'China's piracy hurting its own industries', July 7, 2006, available at: <http://www.msnbc.msn.com/id/13617619>.

⁹ "International companies are losing more than \$60 billion a year because of piracy in China, according to the U.S. government," 'U.S., EU to Fight Counterfeits From China, Russia', Bloomberg, June 19, 2006, available at: <http://www.bloomberg.com/apps/news?pid=10000100&sid=aTSjqjimKzYc&refer=germany>.

¹⁰ Douglas Clark, partner at Lovells in Shanghai, was not only talking about businesses with manufacturing operations in or exporting to China, but also about businesses that had no activities whatsoever in China.

¹¹ 'IPR in China: Management, Protection and Enforcement', IBC, Café Royal, London, March 20, 2006, available at: <http://www.iplawportal.com/china>.

¹² Havoscope, Global Index of Illicit Markets, available at: <http://www.havoscope.com/Counterfeit/counterfeit.htm>.

¹³ One of the boldest statements was made by US senator of North Dakota, Byron L. Dorgan: "President Hu does not only acknowledge the problem (of IP infringement DF), he creates it. It is a Chinese strategy". 'Piracy and Counterfeiting in China', Testimony before the Senate Committee on Trade, Tourism, and Economic Development, March 8, 2006, available at: <http://commerce.senate.gov/hearings/witnesslist.cfm?id=1764>.

<http://video.google.com/videoplay?docid=931507578262530010&q> in the 26:40 minute.

¹⁴ Vice Premier Wu Yi announced that China would "continue to consolidate IPR enforcement, rigorously clamp down on IPR-infringing activities in accordance with law, ...outline an action plan on IPR protection, and ...subject criminals and infringers to applicable punishments", 'Address of Vice Premier Wu Yi at the

China's premier Wen Jiabao indulged himself even to be lyrical about China's future enforcement efforts: "they will be hard as steel and definitely not soft as bean curd"²¹.

Recent successes of some foreign companies in IPR infringement litigation cases²² give rise to optimism. Also, special legislation for administrative authorities to seize on sight

Conference of Enterprise IPR Protection and Self-initiated Innovation', February, 24, 2006, available at: <http://english.mofcom.gov.cn/aarticle/newsrelease/significantnews/200602/20060201583273.html>.

¹⁵ The Supreme People's Court President Xiao Yang and Procurator-General Jia Chun-Wang made statements at the National People's Congress about the need to combat piracy. Myron Brilliant, 'Written Testimony before the US-China Economic and Security Review Commission, China's Enforcement of Intellectual Property Rights and the Dangers of the Movement of Counterfeited and Pirated Goods into the United States', June 7, 2006, available at: http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_06_07wrts/06_06_7_8_brightiant_myron.pdf.

¹⁶ In April 2006, President Hu Jintao stated that the protection of IPR is essential for China's economic development. And Supreme People's Court President Xiao Yang and Procurator-General Jia Chun-Wang confirmed the need to combat piracy, Brilliant, see note 15, pg 7.

¹⁷ Hu Jintao said: "The entire society should make joint efforts to bring China's work regarding intellectual property rights to a new level", BBC Monitoring Asia Pacific, text of a report entitled 'At the 31st collective study of the CCP Central Committee's Political Bureau', May 27, 2006, carried by Xinhua.

Edward Jung, 'Testimony to the US-China Economic & Security Review Commission on Intellectual Property Rights Issues and Dangers of Counterfeited Goods Imported Into the United States', June 7, 2006, pg 12, footnote 42, available at:

http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_06_07wrts/Edward_Jung.pdf.

¹⁸ Jiang Zhipei, chief justice of the Intellectual Property Rights Tribunal of the Chinese Supreme People's Court said about IP enforcement in China: "[L]ook at how far we've come from the Cultural Revolution to now, with a complete system of laws [...]. China is moving slowly forward, but no problem can be solved in an instant [...]" Chris Buckley, 'On Piracy, an advocate for China's progress', International Herald Tribune, May 1, 2006, available at: <http://www.iht.com/articles/2005/10/04/business/IPRjudge.php>.

¹⁹ "[T]he Chinese Government is fully aware that like in all other countries the protection of intellectual property rights is constrained by the level of economic development and other conditions in reality. IPR protection in China cannot be perfected overnight", Report by the People's Republic of China, 'Trade Policy Review: China', WT/TPR/G/161, March 17, 2006, paragraphs 56-66.

²⁰ During the Transitional Review Mechanism of the TRIPs Council, on October 26, 2006, the Chinese representative maintained that five years after the country joined the WTO, its intellectual property rights system was fully consistent with the TRIPs and that China had "fully implemented its accession commitments". ICTSD, 'WTO Scrutinises China's Trade Policies', volume 10, nr. 36, November 1, 2006, available at: <http://www.ictsd.org/weekly/06-11-01/story4.htm>.

²¹ 'Full manuscript of The Times interview with Wen Jiabao' during his visit to the ASEM, in Helsinki, Finland, The Australian, September 6, 2006.

²² Silk market case December 20, 2005, Burberry, Chanel, Gucci, Louis Vuitton and Prada won RMB 200,000 in damages from the landlord of Silk market in Beijing, 'Significant Victory' of Burberry, Chanel, Gucci, Louis Vuitton and Prada against Beijing Silk Alley Shopping Mall', IP Dragon, December 23, 2005, available at: <http://ipdragon.blogspot.com/2005/12/significant-victory-of-burberry-chanel.html>.

Starbucks case December 31, 2005; Starbucks won in Shanghai a two year copyright dispute of Xingbake, which copied Starbucks name in Mandarin and its logo. In a telephone conversation on March 29, Joseph Simone, partner of Baker & McKenzie in Hong Kong, challenges the view of the media that this case was significant since it showed no new developments in IP enforcement, in a telephone conversation.

'Xingbake wakes up and smells the coffee' IP Dragon, January 2, 2006, available at:

<http://ipdragon.blogspot.com/2006/01/xingbake-wakes-up-and-smells-coffee.html>.

Ferrero Rocher case January 2006, a Beijing court ruled that Montessor had to pay Ferrero Rocher RMB 700,000 in damages for

products that bear the Olympic logo²³ and certain luxury brand names²⁴ that have been passed in anticipation of the Olympic Games in Beijing in 2008 can be called promising. However, when the adjective “rampant” is still added in most cases when describing IPR infringements in China, something has gone awry.

Has China not implemented the TRIPs provisions in its legislation or is the enforcement of its IPR laws neither sufficiently effective nor deterrent? Or are the TRIPs provisions intrinsically unfit for enforcing minimum standards of intellectual property rights?

To answer these questions, Part I will deal with the way the more specific TRIPs provisions are implemented into China’s IPR laws. After this, a holistic approach will be taken in Part II, where China’s implementations of the more general TRIPs provisions are evaluated. On the one hand the inherent weaknesses of TRIPs and on the other China’s unique social-economic and cultural makeup will be put into the equation. The existence or absence of extra-judicial factors in China, such as a rule of law, transparency, an independent judiciary, uniform application of laws, fair and impartial courts, and market access, which influence the IPR enforcement climate will be assessed. Part III explores whether the WTO’s Dispute Settlement Mechanism is able to fix China’s enforcement

counterfeiting. Ferrero Rocher acted too late, when the case was already out of hand, according to Joseph Simone, partner of Baker & McKenzie in Hong Kong ‘Ferrero Rocher’s bitter sweet victory’, IP Dragon, January 16, 2006, available at: <http://ipdragon.blogspot.com/2006/01/ferrero-rochers-bitter-sweet-victory.html>. Luxury brand owners sign Memorandum of Understanding with landlords of Silk Market in Beijing, which includes a two-strike policy against IP infringement: first suspension, then cancellation of license to sell at the market. Contractual IP protection, ‘Truce or Trailblazing Cooperation’, June, 9, 2006, available at: <http://ipdragon.blogspot.com/2006/06/truce-or-trailblazing-cooperation.html>.

²³ The State Council approved the Regulations on the Protection of the Olympics logos, State Council Order No. 345, January 30, 2005, available at: <http://www.cnnic.cn/html/Dir/2005/08/02/3069.htm>. “The regulation appears to be backdated, with retroactive effect as of April 1, 2002. Of course, for non-Chinese journalists to find piracy of the Olympics logos, they will need to know what is licensed and what is not. If they are not told who is licensed and who is not – or if everyone is considered “licensed” – we will not be able to measure this piracy”, Professor Justin Hughes, Cardozo School of Law, Yeshiva University, New York, ‘Written Statement: IP Enforcement In China, a potential WTO case and US-China Relations, Hearing on IPR Issues and Imported Counterfeit Goods’, June 8, 2006, pg22, footnote 39, available at: http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_06_08wrts/06_06_7_8_hughes_justin.pdf.

²⁴ After trials in Beijing, administrative enforcement officials in other major cities have also been given the authority to seize on sight products if they bear certain luxury brand names, according to Lindsay Esler. The rationale behind it is that luxury goods manufacturers by definition do not distribute their products through street vendors, Lindsay Esler, ‘China: The Path Ahead for Intellectual Property Protection in China’, HG.org, February 10, 2006, available at: http://www.hg.org/articles/article_1227.html.

problem. Finally, conclusions and recommendations will be given on how to improve the enforcement in China.

Scope of the subject

The objects of protection in TRIPs are first of all, the categories of intellectual property that are subject of Sections 1 through 7 of Part II²⁵: copyright and related rights, trademarks, geographical indications, industrial designs, patents, layout-designs (topographies) of integrated circuits, protection of undisclosed information. Secondly, article 2 (1) TRIPs incorporates the objects of industrial property that are subject of articles 1 through 12, and article 19, of the Paris Convention (1967). The additional objects²⁶ of protection are utility models, service marks and trade names²⁷.

This thesis focuses on the enforcement of copyrights, trademarks and patents. However, take note that the Patent Law is enacted to protect patent rights for invention-creations²⁸. In the Patent Law, inventions-creations mean inventions, utility models and designs²⁹, so these objects will be dealt with implicitly where patents are discussed.

The other objects of intellectual property protected by TRIPs are only dealt with indirectly, where the administrative authorities that enforce these three objects are discussed. Although Hong Kong and Macau are part of China, since 1997 and 1999, respectively, these Special Administrative Regions have each autonomous systems based on their own mini-constitutions^{30 31}, their own separate IP systems³², and no mutual

²⁵ Article 1 (2) TRIPs.

²⁶ Indications of source or appellations of origin, and the repression of unfair competition as stated in article 1 (1) Paris Convention for the Protection of Industrial Property, find their equivalent in geographical indication and protection of undisclosed information, as stated in article 1 (2) TRIPs. Well-known marks and collective marks, stated respectively in articles 6bis and 7bis Paris Convention, are species of the genus trademarks.

²⁷ As stated in article 1 (2) Paris Convention for the Protection of Industrial Property.

²⁸ Article 1 Patent Law: This Law is enacted to protect patent rights for inventions-creations, to encourage invention-creation, to foster the spreading and application of inventions-creations, and to promote the development and innovation of science and technology, for meeting the needs of the construction of socialist modernization.

²⁹ Article 2 Patent Law: In this Law, "inventions-creations" mean inventions, utility models and designs.

³⁰ Basic Law of the Hong Kong Special Administrative Region, available at: http://www.info.gov.hk/basic_law/fulltext/index.htm.

³¹ Basic Law of the Macau Special Administrative Region, available at: http://www.imprensa.macao.gov.mo/bo/i/1999/leibasica/index_uk.asp.

³² Hong Kong, Asia's World City for Intellectual Property Protection, August 2004.

protection of registered IPRs³³. That is why both jurisdictions are excluded from this thesis.

Methodology and disclaimer

The hypothesis is tested by looking at the non-compliance with TRIPs at two levels. First an inventory of the violations of the more specialised TRIPs provisions will be made. After that China's channels of IPR enforcement will be scrutinized, the strengths and weaknesses analysed and aspects identified, in comparison to the standards of the more general TRIPs provisions, that can be seen as obstacles to an effective enforcement. The research was done from Amsterdam and in London. The author's understanding of Chinese is at the moment insufficient to exclusively use primary sources. However, the author relied as much as possible upon primary sources; translations authorised by the Chinese government and interviews with experts in the field. If this were not possible translations by law firms were used as well as literature of scholars.

³³ However, China and Hong Kong have a mutual recognition of arbitration findings and since July 14, 2006, also the mutual enforcement of court rulings on IP infringement: Reciprocal Enforcement of Judgments in Civil and Commercial Matters by the Supreme Courts of the PRC and the Secretary of Justice of Hong Kong, Angela Wang, 'Litigation: New Arrangement for the Reciprocal Enforcement of Judgements between the PRC and Hong Kong', January 2007, available at: http://www.scchk.com.hk/announ/Reciprocal_Enforcement_of_Judgements_between_PRC_&_HK.pdf.

Part I Violations of specific TRIPS provisions

This Part gives an introduction to TRIPs and China's accession to the WTO. After that it analyses whether China's specific IPR laws and regulations are TRIPs compliant. In this process China's civil, administrative and customs enforcement routes will be explored.

Chapter 1 TRIPs

The key characteristics of TRIPs and a way to interpret this treaty are explained in a short introduction to TRIPs in Chapter 1.1. This is followed by a brief history of China as a member of TRIPs in Chapter 1.2. The overhaul China has made in its IPR system before and after its WTO accession to align it with the obligations of TRIPs can be found in Chapter 1.3.

1.1 Introduction to TRIPs

The Agreement establishing the WTO³⁴ provides the legal ground-rules for international commerce between WTO members. TRIPs is an integral part of the WTO Agreement³⁵. TRIPs sets minimum standards for IPR protection and enforcement, but not maximum standards, opening the way for bilateral or regional agreements that go further than TRIPs³⁶. Non-discrimination is a basic principle of TRIPs, just as it is in the World Intellectual Property Organisation (WIPO)'s Paris³⁷ and Berne³⁸ Conventions, which are both incorporated into TRIPs. Non-discrimination has two components: national

³⁴ The WTO Agreement was established January 1, 1995, subsumed and expanded upon its predecessor General Agreement on Tariffs and Trade (GATT) which was established in 1947.

³⁵ TRIPs is Annex 1C of the Agreement establishing the WTO.

³⁶ UNICTAD-ICTSD, 'Resource Book on TRIPs and Development', Cambridge University Press, 2005, pg 35.

³⁷ Paris Convention for the Protection of Industrial Property, China's accession was December 19, 1984, entry into force March 19, 1985.

³⁸ Berne Convention for the Protection of Literary and Artistic Works, China's accession was July 10, 1992, entry into force October 15, 1992.

treatment, pursuant to article 3 TRIPs; and most-favoured-nation treatment, pursuant to article 4 TRIPs³⁹.

1.1.1 National treatment

By virtue of the national treatment, each WTO member should treat the nationals of every other WTO member at least as favourably as its own with regard to IP protection. TRIPs applies the national treatment principle of article 3 Paris Convention and article 5 (1) Berne Convention. National treatment in these WIPO treaties does not totally correlate with the way TRIPs prescribes the principle⁴⁰. TRIPs preserves exceptions to this non-discrimination principle⁴¹.

1.1.2 Super-national treatment

To treat nationals of foreign countries more favourably than your own is called super-national treatment. With regard to IP protection this happened for example in China until several amendments around the millennium put a stop to this. China's Copyright Law of 1990⁴² manifested super-national treatment⁴³, which was only eliminated when the

³⁹ Christopher Arup, *The New World Trade Organisation Agreements, Globalizing Law Through Services and Intellectual Property*, Cambridge University Press, 2000, pg 10.

⁴⁰ "We should appreciate that they have their own complex idiosyncrasies, which have been explored over time. G. Evans, 'The Principle of National Treatment and the International Protection of Industrial Property', *European Intellectual Property Review* 18, 1996, pg 149. The national treatment in TRIPs should be interpreted as a cumulative form of the national treatment varieties of the WIPO treaties.

⁴¹ Article 3 (2) TRIPs limits the availability of the exceptions of article 3 (1) TRIPs in relation to judicial and administrative procedures, only where such exceptions are necessary to secure compliance with laws and regulations which are not inconsistent with the provisions of TRIPs and where such practices are not applied in a manner which constitute a disguised restriction on trade.

⁴² "First, even more than the Patent Law, China's first copyright law was shaped by foreign pressure, with the result that foreigners enjoyed greater legal protection under China's Copyright Law than China's own citizens. Andrew Mertha, 'Politics of Piracy: Intellectual Property in Contemporary China', Cornell University Press, 2005, pp. 118-119.

⁴³ Xu Chao gives an overview of the manifestations of the super-national treatment of China's Copyright Law of 1990 which were amended by the Copyright Law of 2001. These manifestations of super-national treatment included the object of copyright (the lack of protection for works of applied art); the contents of the right of protection (lack of rental right of cinematographic works, computer programs and sound products independent of the right of distribution); and term of protection (term of protection for a computer program is twenty-five years, which can be extended another twenty-five years; so the total term of protection does not exceed fifty years, while TRIPs requires a protection of life plus fifty). Xu Chao, 'On Super-national Treatment - Discussion on the Revision of the Chinese Copyright Law', Deputy Director.

amendment to the Copyright Law was adopted in 2001. Whether super-national treatment is allowed under TRIPs is an open question. Since there has never been a panel decision about it, one cannot give a conclusive answer yet. An IP expert at the WTO in Geneva unofficially opined by phone that super-national treatment is possible under TRIPs⁴⁴. A lack of an explicit prohibition in TRIPs supports this view. However, this author argues against super-national treatment; if, for example, patent rights of foreigners would be better protected than those of nationals, this could jeopardise foreign investments in R&D, because when inventions are done in China by foreign companies and those want to patent their inventions, these foreign patent holders are protected by the lower, national standard, compared to inventions done overseas that are patented in China.

1.1.3 Most-favoured-nation treatment

The most-favoured-nation treatment requires WTO members, if they grant any advantage, favour, privilege or immunity with regard to IP to the nationals of another country, to immediately and unconditionally grant it to all other WTO members⁴⁵.

The ramification of China's WTO membership and made explicitly in article 23 The Understanding on Rules and Procedures Governing the Settlement of Disputes⁴⁶ (DSU) that other WTO members can no longer impose unilateral sanctions on the country

General of the Copyright Department of the National Copyright Administration of China, 1998, available at: <http://211.151.89.183:8089/dispecontent.asp?ID=93&DB=4>.

⁴⁴ Professor Anselm Kamperman Sanders of Maastricht University points out by email that super-national treatment already exists for many years in US copyright law, referring to the requirement to register works of US origin, in order to be able to file an infringement suit in court, while article 5 (2) Berne Convention prohibits any formality to enjoy and exercise copyright. Bryan Mercurio, senior lecturer at the University of New South Wales, indicates in an email that a historical parallel can be drawn with the national treatment obligations under art. III GATT, where there is nothing to prevent a country from discriminating in favour of imported goods, at the expense of local ones.

⁴⁵ However, article 4 TRIPs states four groups of exceptions: favours which derive from international agreements on judicial assistance or law enforcement of a general nature; granted in accordance with provisions of the Berne Convention (1971) or the Rome Convention authorizing that the treatment accorded be a function not of national treatment but of the treatment accorded in another country; in respect of the rights of performers, producers or phonograms and broadcasting organizations not provided under TRIPs; deriving from international agreement related to protection of IP which entered into force prior to the entry into force of the WTO Agreement, provided that such agreements are notified to the Council for TRIPs, and do not constitute arbitrary or unjustifiable discrimination against nationals of other WTO members.

⁴⁶ The Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU), Annex 2 of the WTO Agreement: available at: http://www.wto.org/english/tratop_e/dispu_e/dsu_e.htm.

concerning a lack of intellectual property protection, unless they are authorised by the dispute settlement panels or the Appellate Body of the WTO in case of violations of the trade agreement. Another exception is if there is a situation that China enjoys greater market access than other WTO members, and this situation can be withdrawn. Professor Hughes⁴⁷ argues that “[t]he United States’ Special 301 process only seriously threatens a trading partner with sanctions for lack of IP enforcement when that trading partner enjoys access to the US market beyond what all WTO members enjoy under normal trade relations”. This situation should conform to the exceptions of article 4 TRIPs. In fact, according to a report of the panel, “the European Communities could not demonstrate that Sections 301-310 [of the US Trade Law of 1974] do not permit the US government to take action consistent with US WTO obligations, that his legislation in fact mandates WTO-inconsistent action”⁴⁸.

1.1.4 Dispute settlement

An important innovation of WTO’s DSU⁴⁹ in comparison to the WIPO conventions and WTO’s predecessor GATT⁵⁰ is that panel decisions as well as those of the Appellate Body will be adopted and become legally binding⁵¹, unless there is a consensus to the contrary, pursuant to articles 17 (14) and 16 (4) DSU. In fact, if a Dispute Settlement Body’s ruling is not complied with, the formation of panels, adoption of reports and retaliation will be automatically triggered⁵².

⁴⁷ Hughes, see note 23, pg5.

⁴⁸ WT/DS152/R, United States- Section 301-310 of the Trade Law of 1974, Report of the Panel, December 22, 1999, available at: http://www.wto.org/english/tratop_e/dispu_e/wtds152r.pdf.

⁴⁹ See note 46.

⁵⁰ WTO’s DSU does not allow the losing party to block the adoption of a panel decision, as was possible under the GATT settlement mechanism.

⁵¹ Philippe Sands and Pierre Klein, ‘Bowett’s Law of International Institutions’, Sweet & Maxwell, Fifth Edition, 2001, pp. 379-383.

⁵² Robert E. Hudec, ‘Broadening the Scope of Remedies in WTO Dispute Settlement’, 2000, pg 5, available at: <http://www.worldtradelaw.net/articles/hudecremedies.pdf>.

1.1.5 How to interpret TRIPs

Article 3 (2) DSU states explicitly that the dispute settlement system is to clarify the existing provisions of the WTO Agreement, including TRIPs, in accordance with customary rules of interpretation of public international law. The general rule of interpretation of article 31 (1), and probably the interpretation rules of articles 32 and 33 Vienna Convention on the Law of Treaties⁵³ have attained the status of rules of customary international law. In recent years, the jurisprudence of the WTO panels and especially the Appellate Body has become a rich source from which to receive guidance on the application of the provisions. The application of the general rules of interpretation of article 31 Vienna Convention on the Law of Treaties are to take into account the text, context, domestic legislative history, legitimate expectations, preamble, principle of effectiveness, principle of in dubio mitius and subsequent practice, by the Appellate Body can found in the jurisprudence of the Appellate Body⁵⁴. The same can be done with the application of the supplementary means of interpretation of article 32 and multiple authentic languages rule of article 33 Vienna Convention on the Law of Treaties. According to Bryan Mercurio c.s., a system of de facto precedent has emerged and every WTO panel or Appellate Body carefully considers past cases in its decisions⁵⁵.

1.2 Brief history of China as a member of TRIPs

The claim that China, when it wanted to recover membership of the General Agreement on Tariffs and Trade⁵⁶ (GATT) or after 1995 of its successor WTO, was placed for a fait accompli regarding TRIPs, does not conform to the facts. Representatives of China had participated in the discussions and negotiations⁵⁷ concerning TRIPs in and prior to 1991,

⁵³ Vienna Convention on the Law of Treaties, May 23, 1969, entered into force in January 27, 1980, United Nations, Treaty Series, volume 1155, pg 331, available at:

http://untreaty.un.org/ilc/texts/instruments/english/conventions/1_1_1969.pdf. China acceded this convention in 1997.

⁵⁴ WTO, 'Repertory of Appellate Body reports; interpretation', available at http://www.wto.org/english/tratop_e/dispu_e/repertory_e/i3_e.htm.

⁵⁵ Bryan Mercurio, Yang Guohua and Li Yongjie, 'WTO Dispute Settlement Understanding: A Detailed Interpretation', Kluwer Law International, London, 2005, summary.

⁵⁶ In 1949 China abolished its GATT membership. However China denies that it ever left GATT.

⁵⁷ "China participated in the TRIPs negotiations during the Uruguay Round and initialled the Final Act",

according to the late Zheng Chengsi⁵⁸. Besides, China signed the last document of the Uruguay Round of the GATT⁵⁹ in 1995, WTO's predecessor. Trade and intellectual property were linked in this round and became a central issue of TRIPs⁶⁰.

When China became the 143rd member of the WTO on December 11, 2001, it automatically entered into TRIPs, which is an integral aspect of the WTO agreement. Upon accession to the WTO, China agreed that the first eight years its commitments to align its IPR laws will be reviewed during an annual Transitional Review Mechanism by the TRIPs Council⁶¹.

The supremacy of international treaties concluded by or acceded to by China, which apply to law in civil relations with foreigners, is dealt with by article 142 General Principles of Civil Law⁶². The question of direct effect of WTO rules, the possibility of a private person in a WTO member to base a claim in a domestic court against another private party or WTO member, has not been answered yet. Both the EU and US excluded

Report of the Working Group on the Accession of China, November 10, 2001, pg 54.

⁵⁸ Zheng Chengsi, 'The TRIPs Agreement and Intellectual Property Protection in China', Duke Journal of Comparative & International Law, 1998, volume 9:219, pg 220, available at: <https://www.law.duke.edu/journals/djCIL/downloads/djCIL9p219.pdf>. Zheng, who passed away September 10, 2006, was declared one of IP's most influential figures by Managing IP over multiple years.

⁵⁹ "China was one of the 23 original signatories of the General Agreement on Tariffs and Trade (GATT) in 1948. After China's revolution in 1949, the government in Taiwan announced that China would leave the GATT system. Although the government in Beijing never recognized this withdrawal decision, nearly 40 years later, in 1986, China notified the GATT of its wish to resume its status as a GATT contracting party", WTO, 'History of China's Accession to the WTO', available at: http://www.wto.org/english/news_e/pres01_e/pr243_e.htm.

⁶⁰ The multilateral negotiations during the GATT (WTO) Uruguay Round were used by governments to draft TRIPs, whose objective is to reduce distortions and impediments to international trade, to promote effective and adequate protection of IPR, and to ensure that measures and procedures to enforce IPR do not become barriers to legitimate trade, recognised the need to establish new rules and measures for the effective protection of IPR at borders, World Customs Organisation, 'Model Provisions For National Legislation To Implement Fair And Effective Border Measures Consistent With The Agreement On Trade-Related Aspects Of Intellectual Property Rights', 2006, available at: <http://www.wcoipr.org/wcoipr/gfx/ModelLawfinal.doc>.

⁶¹ Article 18 of China's WTO Accession Protocol sets up a Transitional Review Mechanism (TRM) for reviewing China's compliance with its WTO commitments. The TRM takes place annually for eight years following accession, with a final review in year ten or at an earlier date decided by the General Council, WTO document 'WT/L/432', November 23, 2001, available at: http://www.wto.org/english/thewto_e/acc_e/completeacc_e.htm.

⁶² Article 142 General Principles of Civil Law: (...) where the provisions of an international treaty which the PRC has concluded or acceded to differ from the civil laws of the PRC, the provisions of the international treaty shall prevail, with the exception of those articles to which the PRC has made a reservation. (...).

the invocation of any rule of the WTO before national courts as a matter of statutory law⁶³ as Alberto Alemanno⁶⁴ points out. Then again both WTO members have come up with alternative trade remedy mechanisms that allow private parties to complain about illegal practices of third countries and request their trade authorities to intervene before the WTO⁶⁵.

1.3 China's overhaul of its IPR laws in anticipation of TRIPs

Around the millennium China amended its copyright⁶⁶, patent⁶⁷, and trademark⁶⁸ laws, while introducing some new implementing regulations⁶⁹, administrative measures, and judicial interpretations⁷⁰. Some will argue that these amendments were mostly introduced to conform Chinese intellectual property laws and regulations to TRIPs^{71 72}.

⁶³ The EU promulgated in the preamble of the Council Decision 94/800/EC of December 22, 1994, OJ 1994 L336/1 about its competence "Whereas, by its nature, the Agreement establishing the World Trade Organization, including the Annexes thereto, is not susceptible to being directly invoked in Community or Member State courts", available at: <http://www.legaltext.ee/en/andmebaas/tekst.asp?loc=text&dok=PH2881&keel=en&pg=52&ptyyp=A&tyyp=T&query=11>. The US equivalent of this exclusion can be found in the 1994 Uruguay Round Agreement Act, 19 USCS Section 3511, Pub. L. No. 104=305 (1996), Section 102 (c) "The term 'eligible country' means a nation, other than the United States, that - "(A) becomes a WTO member country after the date of the enactment of the Uruguay Round Agreements Act", available at: http://www.law.cornell.edu/uscode/17/uscode/17_00000104---A000-notes.html.

⁶⁴ Alberto Alemanno, 'Private parties and WTO Dispute Settlement System', Cornell Law School LL.M Series, 2004, volume 1, pg 2, footnote 6, available at: <http://lsr.nellco.org/cgi/viewcontent.cgi?article=1000&context=cornell/lps>.

⁶⁵ Marco Bronckers and Natalie McNelis, give an overview of this in 'The EU Trade Barriers Regulation Comes of Age', available at: <http://www.rieti.go.jp/en/events/bbl/05032502.pdf>.

⁶⁶ Copyright Law, promulgated by the Standing Committee of the National People's Congress, September 7, 1990, amended October 27, 2001 effective November 1, 2001.

⁶⁷ Patent law, promulgated by the Standing Committee of the National People's Congress, March 12, 1984, amended August 25, 2000, effective July 1, 2001.

⁶⁸ Trademark Law, promulgated by the Standing Committee of the National People's Congress, August 23, 1982, amended October 27, 2001, effective December 1, 2001.

⁶⁹ Rules for Implementation of the Patent Law 2001, promulgated by the State Council on June 15, 2001; Implementing Regulations of the Trademark Law, promulgated by the State Council on August 3, 2002; and Regulation on the Implementation of the Copyright Law, promulgated by the State Council on September 15, 2002.

⁷⁰ "Although these judicial explanations are not legislation, they are binding within the Chinese judicial system.. The influence of these judicial explanations on IP rights of enforcement should by no means be overlooked," Xue Hong and Zheng Chengsi, 'Chinese Intellectual Property law in the 21st Century', 2002, pg XXXVII.

⁷¹ "Before WTO accession, China amended, revised and improved its framework of IPR laws, including copyright, trademark and patent laws, so as to be in compliance with the WTO Agreement on TRIPs", WTO, 'Report of the Working Party on the Accession of China, WT/MIN(01)/3', November 10, 2001, paragraphs 251-252, footnote 36.

Peter K. Yu⁷³ challenges this view and proposes that many of the amendments were created in response to China's rapidly-changing local conditions⁷⁴. The discussion can be further put into perspective if one takes into account the anticipatory jurisprudence that took place already in 1995⁷⁵. Although it is an interesting discussion whether internal or external forces were the most important catalyst for change, it suffices here to realise both views add plausible variables of change.

Chapter 2 Civil enforcement route

This Chapter will first focus on the civil enforcement route. The basics about China's judiciary will be introduced in Chapter 2.1. The (controversial) implementations of the civil procedures and remedies of TRIPs (articles 42 through 48 TRIPs, except for article 46 TRIPs, which is a more general TRIPs provision which will be dealt with in Chapter 6.1) will be navigated in Chapter 2.2 to shed light on possible enforcement challenges. Followed by a review of the controversial implementations of the provisional measures of TRIPs in Chapter 2.3 (article 50 (1)-(7) TRIPs, except for paragraph 8, which will be dealt with in Chapter 3.3). An elaborate comparison between these sets of TRIPs provisions and relevant IPR laws and regulations can be found in Attachment Chapter 2.

⁷² According to Yang it is no coincidence that TRIPs played a role of a model law in improving the Chinese IPR system. The Copyright Law was announced after the TRIPs negotiations had commenced and was amended in 2002. Perhaps even more importantly, China established its Special People's Courts to enhance judicial enforcement of IPR in 1992, Deli Yang, 'Intellectual Property and Doing Business in China', Elsevier, 2003, pg 36.

⁷³ Peter K. Yu, 'From Pirates to Partners: Protecting Intellectual Property in China in the Twenty-First Century', American University Law Review, Vol. 50, pg 70, available at: <http://ssrn.com/abstract=245548>.

⁷⁴ Yu gives the following examples of the domestic changes: Emergence of the socialist market economy, Chinese leaders' changing attitude toward the rule of law; the emergence of private property rights and contributions of local stakeholders in the legal reforms; the increasing concerns about ambiguities over relationships in state-owned enterprises; government's active push for modernization. See note 73.

⁷⁵ Zheng Chengsi: "In the practice of the Chinese courts, a lot of cases have been decided on the principles of TRIPs." In 1995, the Beijing Intermediate Court directly relied on a Sino-US IPR Agreement in the case of Walt Disney Productions versus Beijing Publisher and Co. At the time three Sino-US intellectual property rights agreements (1992, 1995 and 1996) were concluded on the basis of TRIPs and the Paris and Berne Conventions. Zheng Chengsi, see note 58, pg 223.

2.1 The judiciary

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. Article 126 Constitution prescribes the independence of the courts, which in practice is a far cry from reality (See Chapter 8.2.1 about the rule of law). The judiciary has four tiers⁷⁶ with at most two trials to complete a case. The first instance can occur at any level in the system with a final appeal to a court at the next higher level⁷⁷. Where in the system the first instance occurs depends on the gravity of the infringement. More information about the four layers of the judicial system can be found in Attachment Chapter 2.

2.2 Civil procedures and remedies of TRIPs

Article 43 (1) TRIPs states that although the plaintiff has the responsibility to substantiate its claim⁷⁸, the judicial authorities should be able to order the opposing party to hand over evidence which lies in their control. This requirement is implemented by article 64 Civil Procedure Law⁷⁹. However, due to a mounting workload of the courts this is not very realistic. According to Wheare⁸⁰ some judges choose to contact experts directly without the presence of either party, which conflicts with procedural due process. Then again TRIPs remains silent about experts altogether. Article 44 (1) TRIPs, which states that judicial authorities can order a party to desist from an infringement, is implemented by article 134 (1) General Principles of Civil Law⁸¹. However, permanent injunctions can be refused based on article 7 General Principles of Civil Law, when they harm public

⁷⁶ The four layers are: 1. Basic People's Court; 2. Intermediate People's Court; 3. Higher People's Court; 4. Supreme People's Court.

⁷⁷ 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.

⁷⁸ However, the burden of proof is reversed under article 57 Patent Law, which stipulates that in infringement cases relating to invention patents for production processes for new products, manufacturers of identical products must furnish proof that their production processes are different from the patented process.

⁷⁹ Civil Procedure Law adopted on April 9, 1991.

⁸⁰ Henry J.H. Wheare, *Building and Enforcing IP Value*, 2005, available at: http://www.buildingipvalue.com/n_ap/380_383.htm.

⁸¹ General Principles of Civil Law, adopted on April 12, 1986.

interests, undermine state economic plans or disrupt social economic order. Social unrest caused by closing down infringing factories may not be that far fetched, see Chapter 8.4.1 about innovation without IPR.

The articles 56 Trademark Law⁸² and 60 Patent Law⁸³ implement article 45 (1) TRIPs to be able to order the infringer to pay the rights holder adequate damages⁸⁴. China's IPR laws, however, do not guarantee the plaintiff can recover his damages⁸⁵, because the defendant may have no or hidden financial resources.

While article 22 Several Provisions of the Supreme People's Court on Issues Relating to Application of Law to Adjudication of Cases of Patent Disputes⁸⁶ (Patent Civil Dispute Interpretation) specifically provides, on the request of the right holder or ex officio, for award of reasonable expenses paid by the patent owner for investigation or for stopping the infringement, pursuant to the first sentence of article 45 (2) TRIPs, it contains no reference to attorney's fees, which is not mandatory in this provision. Neither the Patent Law nor the Patent Implementing Regulations provide for award of attorney's fees⁸⁷ to a prevailing plaintiff in a patent infringement litigation⁸⁸.

⁸² Article 56 Trademark 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 Trademark Civil Dispute Interpretation explains how the profits of the infringer are calculated.

⁸³ 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.

⁸⁴ Even if the damages are granted, collecting them can be difficult, because enforcing that order might be hard.

⁸⁵ 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, Wheare, see note 80.

⁸⁶ Several Provisions of the Supreme People's Court on Issues Relating to Application of Law to Adjudication of Cases of Patent Disputes, adopted on 19 June 2001 at the 1180th Meeting of the Adjudication Committee of the Supreme People's Court.

⁸⁷ This author concurs with Zhang's recommendation for China to promulgate a judicial interpretation to unify the decisions of the lower courts on the issue of attorney fees. Zhang Guangliang, chief judge of Beijing No. 1 Intermediate People's Court, 'Remedies for Patent Infringement: A Comparative Study of US and Chinese Law', John Marshall Review of Intellectual Property Law, number 1, volume 35, 2001, 60-61.

⁸⁸ In practice, the court seldom awards attorney's fees in IP infringement litigation in China. Award of attorney's fees is an exception in China. AIPPI China Group, 'Punitive Damages as a Contentious Issue of Intellectual Property Rights', Q186, 2005, pg 2.

2.3. Provisional measures of TRIPs

One could argue that article 50 (1) TRIPs furnishes the possibility of provisional measures also in non-urgent situations in contrast to article 97 (3) Civil Procedure Law. Then again the Chinese provisions stipulate provisional measures to stop an infringement that is already happening⁸⁹. A difference in scope between article 50 (1a) TRIPs and article 97 (3) Civil Procedure Law⁹⁰ is that the latter clearly excludes the possibility of ex officio anticipated enforcement. Such phrase is absent in article 50 (1a) TRIPs, suggesting that courts too can initiate anticipated enforcement. The same holds true for article 50 (1b) TRIPs. However, article 92 Civil Procedure Law⁹¹ explicitly gives the court the possibility to adopt an order for property preservation in the absence of a request by an interested party. Also, article 74 Civil Procedure Law states that the people's court may also take measures to preserve evidence on its own initiative. Articles 97 and 98 Civil Procedure Law remain silent about whether a preliminary execution can be enforced without a judicial hearing as the *inaudita altera parte* article 50 (2) TRIPs prescribes. The Supreme People's Court came up with provisions⁹² that explained its position on hearings and decisions on commercial disputes. Article 11 Several Provisions of the Supreme People's Court for the Application of Law⁹³ (Pre-trial Cessation of Patent Infringement) provides criteria for ensuring the uniformity

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 Trademark Law and 61 Patent Law, explicitly.

⁹⁰ Article 97 Civil Procedure Law: The people's court may, at the request of the parties, order preliminary execution in respect to the following cases. (3): those involving urgent circumstances that require preliminary execution.

⁹¹ Article 92 Civil Procedure Law: "(...) the people's court may, at the request of the other party, order that property preservation be adopted. In the absence of such request, the people's court may, when necessary, also order to adopt property preservation measures".

⁹² Provisions of the Supreme People's Court on the Strict Application of the Civil Procedures Act in Judicial Hearings and Decisions concerning Economic Disputes, 1995, Liu Xiaohai, 'Enforcement of Intellectual Property Rights in the People's Republic of China', IIC Vol. 32, February 2001, pg 144, footnote 19.

⁹³ On June 5, 2001, the adjudication committee of the Supreme People's Court passed the judicial interpretation on questions regarding to applicable laws for pre-trial deterring of patent infringement, in its No. 1179 committee meeting and made it effective on July 1, 2001, available at: <http://www.chinantd.com/news.php?language=en&channel=65&id=84>.

of the reviewing standard. The Supreme People's Court set up four factors⁹⁴. Factors 2 and 4 are respectively: "without provisional measure, the infringement causes irreparable harm," and "if the public interest will be harmed." One could argue that these criteria make it more difficult for patentees to be granted with a provisional measure than TRIPs' purpose. Article 50 (4) TRIPs remains silent about any substantive criteria for a review. However, according to Zhang Guangliang⁹⁵ the court will in practice consider only two factors in determining whether to adopt the property preservation or preliminary execution measures: 1. the probability of the applicant winning the case; 2. the irreparable harm to the right owner absent those measures.

Chapter 3 Administrative enforcement route

This Chapter will give an overview of the administrative enforcement route in Chapter 3.1, which will focus on the National Copyright Administration in Chapter 3.1.1, the Administration for Industry and Commerce in Chapter 3.1.2, the Administration of Quality Supervision, Inspection and Quarantine in Chapter 3.1.3, State Intellectual Property Organisation in Chapter 3.1.4. In Chapter 3.2 the advantages and disadvantages of the administrative enforcement route is discussed. After that the articles 49 and 50 (8) TRIPs that deal with civil remedies and provisional measures by the administrative authorities will be analysed.

3.1. Overview of the administrative enforcement route

In China the administrative enforcement route is most commonly used⁹⁶. When an interested party does not agree with the administrative decision, he can institute legal

⁹⁴ 1. If alleged infringer's conduct consists of patent infringement; 2. Without provisional measure, the infringement causes irreparable harm; 3. If the applicant for provisional measure deposits appropriate guarantee; 4. If the public interest will be harmed.

⁹⁵ Zhang, see note 87, pg 1.

⁹⁶ 80% of all trademark 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>.

proceedings at the people's courts⁹⁷. 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.

3.1.1 National Copyright Administration

Article 7 Copyright Law⁹⁸ promulgates the responsibility of the National Copyright Administration⁹⁹ (NCA) for the administration of copyright. One can distinguish competences including investigating infringement cases, administering foreign-related copyright issues, developing foreign-related arbitration rules and supervising administrative authorities¹⁰⁰. There are different levels of copyright administration departments; the State Council is responsible for the NCA, the governments of the provinces, autonomous regions and municipalities are responsible for the copyright administration departments of the same level. The NCA is staffed with only 200 persons for nationwide enforcement of copyright¹⁰¹, according to professor Alford¹⁰². That is why it generally encourages complainants to use the courts system¹⁰³. Article 47 Copyright Law shows the difference between the remedies available for the people's courts and those available for the copyright administration department. Both the courts

⁹⁷ This is no appeal, but a court ruling in the first instance.

⁹⁸ Article 7 Copyright Law: The Copyright Administration department under the State Council shall be responsible for the nationwide administration of copyright. The copyright administration department of the People's Government of each province, autonomous region and municipality directly under the Central Government shall be responsible for the administration of copyright in its administrative region.

⁹⁹ National Copyright Administration of China, available at: <http://www.ncac.gov.cn> in Chinese.

¹⁰⁰ International Trade Administration, US Department of Commerce, 'Protecting Your Intellectual Property in China, A Practical Guide for US Companies', January 2003, available at: <http://www.mac.doc.gov/China/Docs/BusinessGuides/IntellectualPropertyRights.htm>.

¹⁰¹ The NCA cracks down on copyright pirates during temporary campaigns, Shi Jiangtao, 'China: Copyright crackdown has flaws, says official', South China Morning Post via Asia Media UCLA, February 9, 2007, available at: <http://www.asiamedia.ucla.edu/article.asp?parentid=63415>.

¹⁰² Professor William P. Alford, Harvard Law School, 'Written statement before the Senate Committee on Commerce, Science, and Transportation's Subcommittee on Trade, Tourism, and Economic Development', March 8, 2006, pg 3, available at: <http://commerce.senate.gov/pdf/alford-030806.pdf>.

¹⁰³ This author's hypothesis for China's lack to protect and enforce copyright is that unregistered rights, such as copyrights, are not as well kept under control. China has announced it will sign the WIPO internet conventions. Again on the legislative side China is disproportionately improving its standard in relation to its enforcement efforts.

and copyright administration departments can order injunctions¹⁰⁴. However, the courts can order to eliminate the effects of the infringing act and making an apology, or paying damages. Instead the copyright administration department can confiscate unlawful income from the act and confiscate and destroy infringing reproductions¹⁰⁵, impose a fine, confiscate the materials, tools, and equipment mainly used for making the infringing reproductions. If the act constitutes a crime, the case should be transferred to the People's Procuratorate Bureau.

3.1.2 Administration of Industry and Commerce

The Administration of Industry and Commerce¹⁰⁶ (AIC) has the power to investigate trademark infringements, based on article 54 Trademark Law¹⁰⁷. There are AICs^{108 109} on different levels: state, provincial, town and county. According to article 53 Trademark 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 trademark. The real difference with the people's courts is that the AIC can impose a fine¹¹⁰, 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 results¹¹¹. Thus, frequently the interested party makes use of the possibility to

¹⁰⁴ Pursuant to article 44 TRIPs.

¹⁰⁵ Pursuant to article 46 TRIPs.

¹⁰⁶ State Administration of Industry and Commerce, available at: <http://www.saic.gov.cn> in Chinese.

¹⁰⁷ Amendment of the Trademark Law adopted on October 27, 2001.

¹⁰⁸ The Trademark Office (TMO), responsible for registration of trademarks and the Trademark Review and Adjudication Board (TRAB), which deals with trademark disputes, are both under the control of the AIC, Jay Sha, 'Making the Most of Administrative Actions', China IP Focus, 2006, pg 4.

¹⁰⁹ TMO has a backlog of over 30,000 trademark opposition cases. Because it can only examine 3,000 cases a year, a complete opposition procedure can take 10 years to complete. Recent draft revision of the Trademark Law will address the issue, but do not have an immediate effect. Paul Ranjard and Benoît Misonne, 'Study 12: Exploring China's IP Environment', Study on the Future Opportunities and Challenges of EU-China Investment Relations, February 15, 2007, pg 11, available at: http://trade.ec.europa.eu/doclib/docs/2007/february/tradoc_133314.pdf.

¹¹⁰ 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 Trademark Law.

¹¹¹ "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", Wheare, see note 80.

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 China¹¹². A complaint to an AIC needs to be filed by a registered trademark agent. However, an AIC can also take action on its own initiative without any complaint of a rights holder. AICs can operate relatively quickly¹¹³ and in theory do not charge for taking action. A disadvantage of the AICs was that they were prone to local protectionism¹¹⁴, but since 1999 efforts have been made to put this under control, according to Andrew Mertha¹¹⁵.

3.1.3 Administration of Quality Supervision, Inspection and Quarantine

A lesser known way for trademark rights holders and also for other IP rights holders is to base their case on infringements of the Product Quality Law¹¹⁶. Article 8 Product Quality Law assigns to the Administration of Quality Supervision, Inspection and Quarantine¹¹⁷ (AQSIQ) the responsibility to ensure Chinese product quality and standards¹¹⁸. So if these goods are fake and shoddy that can harm or intentionally deceive the consumer, AQSIQ can take action and enforce¹¹⁹. 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. If fake products are passed off as genuine products the TSBs can impose, pursuant to article 50 Product Quality Law, the following penalties: to cease production or sale, confiscation of

¹¹² Bai Gang, 'Enforcement Lessons', China IP Focus 2006, Managing Intellectual Property, pg 53.

¹¹³ "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 112, pg 53.

¹¹⁴ 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.

¹¹⁵ 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/06_06_08wrts/06_06_7_8_mertha_andre_w.php.

¹¹⁶ Product Quality Law entered into effect on September 1, 1993 and was amended with effect from September 1, 2000.

¹¹⁷ Administration of Quality Supervision, Inspection and Quarantine, available at: <http://aqsiq.gov.cn> in Chinese.

¹¹⁸ AQSIQ also issues administrative regulations regarding protection of geographic indications separately recognized by China.

¹¹⁹ Andrew C. Mertha, 'Policy Enforcement Markets', 2000, pg 11, available at: <http://artsci.wustl.edu/~amertha/pdf/RRCP.pdf>.

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 offenders¹²⁰, who played a role in the production or distribution of the illegal products to the primary infringers. Christopher Smith's perception¹²¹ 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 down¹²². 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 services¹²³. TSBs are less likely to be influenced by localism, because they are not dependent on management fees which are contingent upon the continuance of any business no matter whether it infringes or not¹²⁴. Everybody can file a complaint anonymously at a TSB¹²⁵, which can also take action ex officio.

3.1.4 State Intellectual Property Office

Besides the Product Quality Law, patent, utility model and design rights holders can base their enforcement on the Patent Law¹²⁶. In China designs are, together with inventions and utility models, part of the so called inventions-creations, which are protected by the Patent Law¹²⁷. Article 3 Patent Law promulgates that the State Intellectual Property

¹²⁰ Article 61 Product Quality Law.

¹²¹ Christopher Smith, 'Caveat Counterfeiter, China Amends Product Quality Law', Perkins Coie LLP, 2000, available at: <http://www.perkinscoie.com/page.cfm?id=45>.

¹²² Mertha, see note 119, pg 6.

¹²³ Mertha, see note 119, pg 15.

¹²⁴ "[T]he AIC derives income from enterprise registration and continuing management fees, yet at the same time it is ordered to shut down enterprises found to be violating trademarks", Mertha, see note 115.

¹²⁵ Article 10 Product Quality Law.

¹²⁶ Amended Patent Law adopted on August 25, 2000.

¹²⁷ Article 2 Patent Law: In this Law, "inventions-creations" mean inventions, utility models and designs.

Office¹²⁸ (SIPO) is responsible for granting patents, including the enforcement of counterfeit patented products and patent infringement^{129 130}. Provincial offices generally deal with patent complaints. Pursuant to article 57 Patent Law, when parties are unwilling to consult with each other or 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 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, except for the NCA. It is less effective at enforcing the IP rules due to the complexity of patent cases.

3.2 When to use the administrative enforcement route

Administrative decisions are not final and can be challenged by choosing to appeal. For a long time China did not distinguish between courts and administrative authorities. Both were used as instruments to implement policy¹³¹. Now, the difference is more pronounced: in comparison to litigation it has both advantages and disadvantages.

¹²⁸ State Intellectual Property Office, available at: http://www.sipo.gov.cn/sipo_English.

¹²⁹ 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.

¹³⁰ The priority given to technology as expressed in China's 11th five-year plan, manifests itself by the high investments the Chinese government is making in human resources at SIPO, in comparison to those investments made at TMO or NCA, Ranjard and Misonne, see note 109, pg 11.

¹³¹ Stanley Lubman, 'Prospects for the Rule of Law in China After Accession to the WTO,' 1999, available at: <http://www.law.berkeley.edu/institutes/cslls/lubmanpaper.doc>.

3.2.1 Advantages

If the complexity of an infringement is low, the scale of it not serious and the costs are an issue, the administrative enforcement route is preferable because of its speed, limited costs¹³², easy access and national coverage. Administrative authorities usually apply the laws strictly, so in many cases one knows what to expect. Once the administrative authority accepts a complaint and decides to take action, it will conduct an inspection on the premises of the suspected infringer¹³³. If such a raid reveals that infringing activities are taking place, the administrative authority has the power to order to cease the infringement, impose a fine, based on the profits of the infringer, seal or seize infringing products as well as to inspect the files and accounting books of the infringer to ascertain the level of infringement. It does not, however, have the power to force entry to premises. In serious cases, the administrative authority has the power to confiscate any machinery used to manufacture the infringing products. According to Wheare¹³⁴ administrative authorities often do not have all the necessary information to assess the profits the infringer has made and any fine imposed is generally relatively small.

3.2.2 Disadvantages

If a case involves complex¹³⁵ legal issues, civil actions may be more suitable¹³⁶. Administrative bodies have no power to award damages nor to determine civil liability. Evidence submitted in administrative proceedings must be notarised and are increasingly scrutinised so that they can, where appropriate, be used in court proceedings. A disadvantage is that some local administrative authorities are prone to local protectionism: sometimes the infringers do not pay their penalties, or the infringers'

¹³² "Administrative actions are relatively inexpensive. Preparation costs will depend on the amount of investigation required, but a typical raid can be conducted for US\$5,000 including investigation costs," Wheare, see note 80.

¹³³ Wheare, see note 80.

¹³⁴ Wheare, see note 80.

¹³⁵ For example cases "involving the use of a similar trademark on the same or similar products, or the use of similar packaging at the same time as using the IP owner's trademark as its corporate name", Bai Gang, see note 112, pg 54.

¹³⁶ Wheare, see note 80.

goods are confiscated, but instead of destroyed, they are given back to the infringers. Another challenge is that administrative authorities might be more cautious, because they know their decisions are not final and parties can institute legal proceedings at the people's court.

3.3 Civil remedies and provisional measures of the administrative authorities

The articles 49 and 50 (8) TRIPs state that to the extent that any civil remedy can be ordered as a result of administrative procedures on the merits of a case, such procedures shall conform to principles equivalent in substance to those set forth in articles 42 through 48 TRIPs and article 50 (1) through (7) TRIPs, respectively. Dependent on the way one interprets "any" in the sentence this could mean: if only one civil remedy of all the civil remedies can be ordered as a result of administrative procedures on the merits of a case, it should conform to the civil procedures and remedies and provisional measures standards of TRIPs. Or it could mean that the administrative procedures on the merits of a case only need to conform to the civil procedures and remedies and provisional measures standards of TRIPs if all civil remedies can be ordered. Salomé Lachat and Daniel Lachat propose the latter interpretation, which means that if the administrative procedures on the merits of the case do not include damages, they do not have to conform to the abovementioned TRIPs provisions¹³⁷. This is implied by Daniel Gervais as well¹³⁸. This author deems the first interpretation the right one. However, one could still agree that the administrative decisions are quasi-judicial,

¹³⁷ The wording: "To the extent that any civil remedy can be ordered as a result of administrative procedures on the merits of a case", as article 49 TRIPs prescribes, could be interpreted as the situation whereby any civil remedy can be ordered, including to order the infringer to pay the right holder damages, pursuant to article 45 TRIPs. "This is a condition sine qua non for an enforcement forum to be recognised as an initial forum, be it administrative or judicial according to article 49 TRIPs", Salomé Lachat, Daniel Lachat, 'The Nature of the Chinese IPR Administrative Enforcement System', pg 5, available at: http://halshs.archives-ouvertes.fr/docs/00/11/86/54/PDF/The_nature_of_the_Chinese_IPR_administrative_enforcement_system.pdf.

¹³⁸ "Administrative authorities should in fact conform to the "substance" judicial procedures. These are sometimes referred to as "quasi-judicial" procedures. Departure from the substance of principles may not be easy to access, but it applies to a departure from a number of fundamental principles contained in this section, e.g. that damages awarded, if any, should adequately compensate the right holder (art. 45 (1)", Daniel J. Gervais, 'The TRIPs Agreement. Drafting History and Analysis', Second Edition, Sweet & Maxwell, London, 2003, pg 304.

because the non-prevailing party can still institute legal proceedings at a people's court, which is not an appeal but the use of the right of having a court ruling in infringement disputes, and an administrative decision only becomes executory by an exequatur of a people's court. Therefore, comparing the specific operational regulations of the respective administrative authorities that constitute quasi-judicial decisions with the civil procedures, remedies and provisional measures that constitute fully-judicial decisions is comparing apples to oranges¹³⁹.

Both the General Administration of Customs and the Public Security Bureau/Procuratorate are administrative authorities¹⁴⁰, but will be dealt with in the chapters below. Other government agencies, such as the State Food and Drug Administration¹⁴¹ and the Ministry of Culture¹⁴², also play a role in the enforcement of China's IP laws: the former has jurisdiction over pharmaceutical counterfeiters, and the latter protects certain copyrighted works¹⁴³.

Chapter 4 Customs enforcement route

An undervalued enforcement route is customs, which can be very helpful; firstly to assess whether a product is being infringed in China^{144 145} and secondly if this is the case, to enforce. First an overview of the customs enforcement route is given in Chapter 4.1, followed by an assessment of whether China's customs regulations are TRIPs compliant in Chapter 4.2.

¹³⁹ Besides this theoretical objection, the operational administrative regulations were not available in English.

¹⁴⁰ A comprehensive directory of the branches of SAIC, TSB, PSB and SIPO, James Tunkey and Pamela Beitleman, 'Intellectual Property Rights Enforcement in China', I-OnAsia IPR Brief, April 2005, pg 22-25, available at: http://www.ionasia.com.hk/pdf/IPR_in_China.pdf.

¹⁴¹ State Food and Drug Administration, available at: <http://www.sfda.gov.cn/eng>.

¹⁴² Ministry of Culture, available at: <http://english.ccnt.com.cn>.

¹⁴³ Robert Goldscheider, 'Licensing Best Practices: Strategic, Territorial, and Technology Issues', John Wiley and Sons, 2006, pg 13.

¹⁴⁴ "Merely by recording an IP right, an IP owner has a chance to obtain, through Customs' monitoring, a clearer picture of the number and size of suspect shipments", Neal Stender, Laetitia Tjoa, Yuanming Wang and Yan Zeng, 'Using PRC Customs to Protect IPR', China Business Review, November 1, 2004, pg 3, available at: <http://www.orrick.com/fileupload/719.pdf>.

¹⁴⁵ The alternative, to inspect each and every country to which counterfeit goods are exported, is of course not feasible of most companies.

4.1 Overview of the customs enforcement route

From 2000 to 2005¹⁴⁶ the number of infringement cases handled by the Chinese customs has annually increased by 30 percent¹⁴⁷. Then again, the low starting point of 295 cases in 2000 should be taken into account. A revised customs protection regulation that went into effect March 1, 2004, seems to have worked as a catalyst: the first half of 2006 Chinese customs already dealt with 1,076 intellectual property infringement cases¹⁴⁸. Customs have to strike a balance between the enforcement of intellectual property and not hindering the smooth flow of trade in legitimate goods. That is why approximately only four percent of the products leaving China will be physically checked at over 300 ports¹⁴⁹. However, technological innovations¹⁵⁰ will improve the success rate of seizing infringements.

The General Administration of Customs¹⁵¹ (GAC) is the highest supervision unit of China Customs. GAC manages customs facilities nation-wide¹⁵². 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).

¹⁴⁶ The statistics of customs seizures of infringing goods between 1996 and 2004 is available here:

<http://english.customs.gov.cn/Portals/191/IPR/Figures%20of%20seizures.pdf>, and 2005 here:

<http://english.customs.gov.cn/Portals/191/IPR/2005figure1.doc>.

¹⁴⁷ J. Benjamin Bai and Kam W. Law, 'IP issues in U.S.-China trading prompting action by both sides', Houston Business Journal, volume 35, number 5, June 10, 2005, available at:

http://www.jonesday.com/files/Publication/df13fd5-2029-4735-b651-17421fbc9510/Presentation/PublicationAttachment/f41bc2b7-94bf-46b6-ba6e-1bfa9574cded/Bai_IPissues_06102005.pdf.

¹⁴⁸ Yangtze Yan, 'China's customs reels in 1,076 IPR infringement cases', Xinhua, August 9, 2006, available at: http://news.xinhuanet.com/english/2006-08/09/content_4937480.htm.

¹⁴⁹ In China's largest container port (which is Shanghai DF), it is estimated that each customs officer must process 800 container shipments each year. Only around 4% of the products entering or leaving China can be physically checked. Beyond this number, the port would be in a jam. The rate of physical checks on exports is lower because many of them are exempt from customs duty. Li Qunying, 'Customs' win-win offer', China IP Focus 2006, Managing Intellectual Property, pg 6.

¹⁵⁰ The European Union and China increase customs cooperation to fight terrorism and counterfeiting. To hasten checks at Rotterdam in the Netherlands, Felixstowe in Britain and Shenzhen in China, a pilot project with container screening technology will be set up with the participation of Hutchison Whampoa of Hong Kong, a conglomerate controlled by Li Ka-shing, Hong Kong's richest business man. Bloomberg, Reuters, 'EU and China to Plug Port Holes', International Herald Tribune, September 19, 2006, available at: <http://www.ihf.com/articles/2006/09/19/business/port.php>.

¹⁵¹ General Administration of Customs, see <http://english.customs.gov.cn/default.aspx>.

¹⁵² General Administration of Customs, 'Brief Introduction to China Customs', available at: <http://english.customs.gov.cn/default.aspx>.

4.2 Compliancy of China's customs enforcement route

Part III, Section 4 of TRIPs is dedicated to the special requirements related to border measures. These consist of articles 51 through 60 TRIPs¹⁵³. The less controversial implementations of these TRIPs provisions can be found in Attachment Chapter 4. Why the implementations of articles 53 (1) and 59 TRIPs are considered controversial will be dealt with below.

4.2.1 Article 53 (1) TRIPs

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 him¹⁵⁴ in advance and customs will proactively monitor shipments of goods for possible infringements¹⁵⁵. Recordation gives customs more information about the goods, which in turn may help them with the investigation and determination of infringed goods¹⁵⁶. However, trainings given by the rights holders may also be needed to educate customs how to distinguish characteristics of genuine products and their counterfeit versions¹⁵⁷. Recordation may have more advantages¹⁵⁸, but article 15 Rules for Implementing the

¹⁵³ The Chinese government site Intellectual Property in China has summarised the TRIPs provisions relevant to customs, available at:

http://www.ipr.gov.cn/ipr/en/info/Article.jsp?a_no=8978&col_no=229&dir=200607.

¹⁵⁴ Article 16 Regulations 2003.

¹⁵⁵ Bai and Law, see note 147.

¹⁵⁶ "I am afraid that IP owners have more work to do than simply recording their rights with the GAC and waiting for Customs officers to discover counterfeits. Customs officials depend on information and IP owners may possess much of the information they need. This includes: the names of counterfeiters and traders and the date that they plan to export or import the infringing products. Information about the routes that counterfeiters use and details of seizures in countries where the goods originated, or if they were destined for China," Li, see note 129, pg 7.

¹⁵⁷ 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, see note 149, pg 7.

¹⁵⁸ Recordation can have more benefits for the right holder: it makes sure that the documents that proof 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 149, pg 4 and 5.

Customs Regulations¹⁵⁹ 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, the tipping point is when the value of the goods is RMB 20,000, in which case a guarantee that equals half the value of the goods must be provided, and when the value of the goods exceeds RMB 200,000, the guarantee is limited to a maximum of RMB 100,000¹⁶⁰. This 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 altogether¹⁶¹. 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 TRIPs¹⁶². However, not recording one's IPR gives the rights holder more control over when and where customs will seize the infringed products. Otherwise customs can act on their own initiative, which may jeopardise efforts to bring maximum damage to a counterfeit network. Luke Minford¹⁶³ 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.

¹⁵⁹ Implementation of the Regulation on the Customs Protection of Intellectual Property Rights, became effective on July 1, 2004.

¹⁶⁰ Article 22 Implementing the Customs Regulations: If the value of the goods is less than RMB 20,000, the guarantee provided shall be equal to the value of the goods; from RMB 20,000 up to RMB 200,000, the guarantee should be 50 percent of the value of the goods, but no less than RMB 20,000 and if the value of the goods exceeds RMB 200,000 the value of the guarantee shall be RMB 100,000. The right holders may also provide a general guarantee to the customs upon approval of the customs office, which shall be no less than RMB 200,000.

¹⁶¹ Yu Xiang, 'The New Regulations Regarding Customs Protection of Intellectual Property Rights of the People's Republic of China', July 2005, IIC Volume 36, pg 840.

¹⁶² 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.

¹⁶³ Luke Minford, head of China operations of Rouse & Co. International, '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>.

4.2.2 Article 59 TRIPs

Infringing products are often not destroyed in China and find their way back into the channels of commerce, which conflicts with article 46 TRIPs. Competent authorities shall have the authority to order the destruction or disposal of infringing goods in accordance with the principles as set out in article 46 TRIPs, thus to dispose the infringing goods outside the channels of commerce, without compensation to the infringer. Article 30 (1) Implementation Regulation 2004 states that customs are permitted to donate infringing goods to public welfare organisations or the right holder can purchase the goods. According to article 30 (2) Implementation Regulation 2004 if the goods cannot be disposed of in a way they can be used by a public welfare organization, they shall be auctioned after eliminating the infringing character of the goods. The income of the auction goes to the state treasury. Article 30 (3) Implementation Regulation 2004 states that only if donating to a charitable organisation and auctioning is not possible, the infringing products shall be destroyed. The equivalent of article 30 Customs Implementation Regulation 2004 could already be found in article 27 Regulations 2003. One can argue that the donation to charitable organisations and auctions open the possibility of infringing product reentering the channels of commerce¹⁶⁴, which is in conflict with article 46 TRIPs. Trainer contends that counterfeit goods should always be destroyed unless the right holder gives prior consent for donations or auctions, because no company is able to vouch for the safety of seized products, allowing counterfeit products to reenter the marketplace will injure the right holder's brand equity, and the destruction of illegal goods makes a statement it is unacceptable¹⁶⁵.

¹⁶⁴ "It is not uncommon for counterfeit goods donated to charity or sold at auction to reenter the stream of commerce as they can easily be repurchased by the infringers and leave brand owners right back where they started," Timothy Trainer, 'Submission of the International AntiCounterfeiting Coalition, Inc., to the US Trade Representative, Special 301 Recommendation', February 11, 2005, pg 30., available at: http://www.iacc.org/resources/2005_USTR_Special_301.pdf.

¹⁶⁵ Trainer, see note 164, pg 30.

Besides, it can be argued that article 16 Regulations 2003¹⁶⁶ and article 21 Customs Implementation Regulation 2004¹⁶⁷ that impose a deadline of three days for a right holder to apply for seizure of suspected infringing goods held by Chinese customs, otherwise the goods shall not be detained, are not conducive to border enforcement¹⁶⁸ in the best case or non-compliant to the prohibition to entail unreasonable time-limits of article 41 (2) TRIPs in the worst case. On the other hand, customs protection in China may have been strengthened by the Regulations Governing Customs Penalty of 2004¹⁶⁹ which consists of only one single provision. This article 25 Regulations Governing Customs Penalty of 2004 provides customs the power to fine exporters or importers up to 30 percent of the value of the infringing goods for IP infringements.

¹⁶⁶ Article 16 Regulations 2003: Customs shall notify the right owner immediately when they discover the goods suspected to infringe recorded intellectual property rights. Where the right owner files an application according to Article 13 of these Regulations within three business days after he receives the notice from Customs and submits the guarantee according to Article 14 of these Regulations, Customs shall detain the suspected goods and send the detention receipt to the consignees or consignors. Where the right owner fails to file the application or submit the guarantee within the time limit, Customs shall not detain the goods.

¹⁶⁷ Article 21 Customs Implementation Regulation: An intellectual property right holder shall give reply according to the following provisions within 3 working days from the date of serving the customs the written notice as described Article 20 of the present Measures:
(1) If he believes that the relevant goods have infringed upon the intellectual property right that have been put on archives at the General Administration of Customs, and requests the customs to detain the goods, he shall file a written application to the customs for detaining the goods suspected of infringement and providing guarantee in accordance with Article 22 of the present Measures;
(2) In case he believes that the relevant goods do not infringe upon the intellectual property rights that have been put on archives at the General Administration of Customs by him or does not request the customs office to detain the goods suspected of infringement, he shall explain the reason to the customs in writing. The intellectual property right holder may check the relevant goods upon approval of the customs.

¹⁶⁸ “[T]hese rules impose a deadline of only three days for a right holder to apply for seizure of suspected infringing goods held by Chinese customs,” USTR, 2006 Special 301 Report, April 28, 2006, pg 20, available at:

http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/2006_Special_301_Review/asset_upload_file473_9336.pdf.

¹⁶⁹ Regulations Governing Customs Penalty of People's Republic of China (Provision related to intellectual property protection), adopted at the 62nd Executive Meeting of the State Council on September 1, 2004, promulgated by Decree No.420 of the State Council of the People's Republic of China on September 19, 2004 and effective as of November 1, 2004, available at:

http://www.ipr.gov.cn/ipr/en/info/Article.jsp?a_no=2045&col_no=121&dir=200603.

Chapter 5 Conclusion of Part I

Part I focuses on whether China's specific provisions are compliant with TRIPs. The difficulty is that some of the implementations of civil procedures and remedies and provisional measures are de jure compliant to TRIPs, but de facto not, or vice versa. So if a WTO member limits itself to this exercise it can do nothing in the first case, and in the latter case (de jure non-compliant, but de facto compliant) it makes no sense to do anything about it. Comparing specific operational regulations of the respective administrative authorities that constitute quasi-judicial decisions with civil procedures, remedies and provisional measures that constitute fully-judicial decisions does not make sense. It is controversial whether TRIPs prohibits recordation, which has its advantages. It could be argued that the deadline of three days for a right holder to apply for seizure of suspected infringing goods held by Chinese customs is non-compliant to the prohibition to entail unreasonable time-limits as set out by TRIPs.

Part II Violations of general TRIPs provisions

Although it could be argued that some of China's customs regulations are not compliant with TRIPs, most TRIPs implementations of civil procedures and remedies and provisional measures are compliant, at least on paper. The question is then why those provisions have not led to an acceptable level of IPR infringements in China. In order to answer this, Part II changes the perspective from comparing China's IP laws with TRIPs compliance on paper to TRIPs compliance on the ground. China's IP enforcement system will be assessed whether it permits effective action against infringement, pursuant to article 41 TRIPs, whether it creates effective deterrents of infringement, pursuant to article 46 TRIPs, and whether it furnishes remedies sufficient to provide a deterrent, pursuant to article 61 TRIPs. How China's IPR enforcement system plays out in light of these general provisions is dependent on both intrinsic weaknesses of TRIPs and extra-judicial factors that influence IP enforcement. In addition, China's proclivity for enforcement by mass campaigns will be assessed. Finally, by combining factors that came up, IPR paradoxes will emerge both the Chinese government and right holders have to deal with.

Chapter 6 TRIPs and effective deterrents of infringements

First, an assessment is made of the way TRIPs has been drafted and its matching ambition level in Chapter 6.1. After that, China's IP enforcement system is analysed whether it permits effective action against infringement, as article 41 TRIPs requires, in Chapter 6.2.1. The question whether China's IP enforcement system creates effective deterrents of infringement, pursuant to article 46 TRIPs, is next in Chapter 6.2.2.

6.1 Preliminary assessment of TRIPs and its ambitions

Professor Justin Hughes points out that many TRIPs provisions "are drafted in terms of what kind of procedures or remedies must be created within a legal system, without

clearly mandating that the procedures or remedies must be regularly used.”¹⁷⁰ An example of this is article 41 (1) TRIPs, as can be seen in Chapter 6.2.1.1. These TRIPs provisions are neither drafted as obligations of result, nor as obligations of means¹⁷¹. One could say they are drafted as a call to acknowledge its consequences, obligations to legislate, rather than obligations to enforce. This ambition level was evidently the result of the identification by the drafters of the lowest denominator for a majority of member states, which is the case with any multilateral treaty¹⁷².

6.2.1 Permitting effective action against infringement

The so called general obligations relating to enforcement of Section 1 of the third part of TRIPs are contained in five paragraphs of article 41 TRIPs. However only paragraph 1 is a straightforward obligation, the next three paragraphs are certain general principles, and paragraph 5 can be seen as a safeguard for any WTO member who does not want to take TRIPs seriously.

6.2.1.1 Article 41 (1) TRIPs

Article 41 (1) TRIPs obliges members to have enforcement procedures that permit effective action against infringement. Enforcement procedures include, according to the provision, expeditious remedies to prevent¹⁷³ infringements and remedies which constitute a deterrent to further infringement. The definition of the word effective is producing a decided, decisive or desired effect¹⁷⁴, in other words an intended result. But there is ambiguity as in what light to interpret the intended result of the action. This could

¹⁷⁰ Hughes, see note 23, pg5.

¹⁷¹ Also known as ‘obligations de résultat’ versus ‘obligation de moyens’, Christian Rothhahn, ‘Liability of the outsourcer under an “obligation de résultat”, September, 6, 2006, available at: http://www.twobirds.com/english/publications/articles/Liability_outsourcer_under_obligation_de_resultat.cfm.

¹⁷² Which is probably the reason why bilateral treaties are so popular.

¹⁷³ The wording ‘Permit effective action against infringement’ does not mean that effective action against infringement should be offered, but only that there is permission for effective action or to make it possible that such effective action can take place.

¹⁷⁴ Merriam-Webster Dictionary definition of effective, available at: <http://www.m-w.com/dictionary/effective>.

include public objectives such as technology transfer¹⁷⁵ and to promote public interest in sectors of vital importance to their socio-economic and technological development¹⁷⁶. China, if criticised for insufficiently ensuring enforcement procedures that permit effective action could invoke these safeguards codified in articles 7 and 8 TRIPs¹⁷⁷ and the TRIPs preamble¹⁷⁸. Another way to interpret the word effective could be solely in terms of economic incentives: if China provides a reward adequate to stimulate inventions and innovation that maintain these economic incentives, these could be considered effective¹⁷⁹. Then again to focus on this hardly conforms to TRIPs' international spirit. However, it makes it clear that to base a WTO Dispute case on article 41 (1) TRIPs is hard to prove.

Article 41 (1) TRIPs prescribes expeditious remedies to prevent infringements, which are available under Section 3 Provisional Measures, article 50 TRIPs¹⁸⁰. It also instructs to have remedies which constitute a deterrent to further infringements. This is a controversial issue, see Chapter 6.2.2.1 Article 46 TRIPs other remedies. One should distinguish between civil, administrative and criminal deterrent remedies. The procedures as laid out in article 41 (1) TRIPs must not hinder legitimate trade and provide safeguards against their abuse. Examples include a security provided by the applicant that is sufficient to protect the defendant and to prevent abuse, see China's implementations of article 50 (3) TRIPs in Chapter 2.3.

¹⁷⁵ Article 7 TRIPs.

¹⁷⁶ Article 8 TRIPs.

¹⁷⁷ Articles 7 and 8 TRIPs, taken together may provide, "a basis for seeking waivers to meet unforeseen conditions of hardship," J.H. Reichman, *The TRIPs Agreement Comes of Age: Conflict or Cooperation with the Developing Countries*, 32 *Case W. Res. J. International Law*, 2000, pp. 441 and 461.

¹⁷⁸ Fourth 'recognition' of the TRIPs preamble: "Recognizing the underlying public policy objectives of national systems for the protection of intellectual property, including developmental and technological objective;".

¹⁷⁹ "[O]ne could interpret "effective" purely in terms of economic incentives: a member must provide a reward adequate to stimulate the successful research and development of plant varieties", Paul J. Heald, 'Mowing the Playing Field: Addressing Information Distortion and Asymmetry in the TRIPs Game', 88 *Vanderbilt Law and Economics Research Paper No. 02-21*; *Vanderbilt Public Law Research Paper No. 02-15*, 2002, pg 59, available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=319301#PaperDownload.

¹⁸⁰ Article 50 (1) The judicial authorities shall have the authority to order prompt and effective provisional measures: (a) to prevent an infringement of any intellectual property right from occurring, and in particular to prevent the entry into the channels of commerce in their jurisdiction of goods, including imported goods immediately after customs clearance.

6.2.1.2 Article 41 (2) TRIPs

It can be argued that procedures available are only fair and equitable, as article 41 (2) TRIPs¹⁸¹ prescribes, as to the level of the rule of law. Whether China and the rule of law are compatible at this moment in time, will be analysed in Chapter 8.2.1. Besides, article 41 (2) TRIPs defines that these procedures shall not be unnecessarily complicated or costly. Especially the quasi-judicial enforcement route of administrative enforcement procedures is straightforward and relatively cheap. However, US litigants are of the opinion, according to the US Trade Representative¹⁸², that the costs of investigation and bringing cases for civil litigation are prohibitively high¹⁸³, especially the civil enforcement of patents. In conflict with article 41 (2) TRIPs, which prohibits unwarranted delays, a single patent case can take four to seven years¹⁸⁴ to complete¹⁸⁵. Then again, Jay Sha writes¹⁸⁶ that nowadays litigation is relatively quick¹⁸⁷. Article 41 (2) TRIPs further specifies that procedures shall not entail unreasonable time-limits or unwarranted delays. However, civil litigation cases in China tend to come up for trial very quickly, which sometimes can make it impossible to adduce evidence created overseas¹⁸⁸. Time-limits in China are strictly maintained^{189 190}.

¹⁸¹ Article 41 (2) TRIPs: Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.

¹⁸² USTR, see note 168, pg 21.

¹⁸³ Litigation can be expensive: "Court fees are a percentage based on claimed damages, to be paid at filing." Bill Huo, 'Civil IP litigation in China', US Department of Commerce webinar series, February 8, 2007, available at: <http://www.stopfakes.gov/media/PG3529498.wmv>.

¹⁸⁴ "The process is inefficient and unpredictable. A single case can take four to seven years to complete," USTR, see note 168, pg 21.

¹⁸⁵ "Unlike in many other jurisdictions, Chinese patent law does not give courts the power to determine the validity of the patent during patent infringement cases. Consequently, due to legal uncertainty regarding the status of the patent right in question, infringement cases have to be stayed until the re-examination decision and further proceedings such as administrative litigation. This is regarded as an efficient measure to balance the rights of the patentee and the public," Li Jian, 'China Hones its Civil Litigation Rules', China IP Focus 2006, Managing Intellectual Property, available at: <http://www.managingip.com/Default.asp?Page=17&ISS=21608&SID=622113>.

¹⁸⁶ "However, litigation is now relatively quick. A court action for a simple case may take about one year from filing to trial," Sha, see note 108, pg 48.

¹⁸⁷ In other countries, such as the Netherlands, a patent case can take up a similar amount of time.

¹⁸⁸ "Where any evidence purported to be adduced in litigation in China is created overseas, it must be notarized by a notary public and legalized by the Ministry for Foreign Affairs in the home jurisdiction, and then taken to the Chinese Embassy for legalization, before it will be accepted by the Courts. This process can take two to three months, and civil litigation cases in China tend to come up for trial very quickly, which sometimes makes it impracticable to adduce certain evidence," Chan and Parsonage, see note 96.

6.2.1.3 Article 41 (3) TRIPs

Decisions on the merits of a case should be in writing and reasoned, made available to the parties without undue delay, as article 41 (3) TRIPs prescribes. They must be based on evidence in respect of which parties were offered the opportunity to be heard. However, according to Lubman¹⁹¹, there is a disquieting lack of transparency in the opinions of the courts. Besides being short, the decisions often do not discuss the evidence presented in the case nor the legal arguments presented by the parties, the legal reasoning or a rationale of the decision. Lubman asserts that courts may only review the legality of the application of a law to particular circumstances, instead of its reasonableness. As a consequence determining whether a regulation was violated might become more difficult, as Lubman contends. Then again, one can argue that some of China's provisions are not clearly expressed. This might be done to give judges more discretionary authority to apply a rule in unforeseen circumstances.

6.2.1.4 Article 41 (4) TRIPs

The risk of conflicting court rulings can be reduced by a system of appellate review. Article 41 (4) TRIPs obliges to provide an opportunity for review by a judicial authority of final administrative decisions. Whether to give an opportunity for review of at least the legal aspects of initial judicial decisions on the merits of a case, is decided by the importance a people's court attributes to a case. However, the internal operation of the courts can seriously negate the function of the appeal. According to Lubman, lower courts often ask higher level courts for instructions on how to dispose of specific cases; decisions are often made by senior judges who have not participated in hearing the case.

¹⁸⁹ "The time limit, of thirty days, which is set by the court shall need to be honoured, and the time for exchange of discovery evidence is limited to no more than two occasions, except with the leave of the court. Failure to provide evidence within the above limitation after receipt of court's notice of acceptance and/or for defence shall be deemed as a waiver of rights, failing to meet deadlines can affect the outcome of an action," Linus Zhu, 'Rules Concerning Evidence in Civil Proceedings', 2003, available at: <http://www.duanduan.com/lsjt-e-2003-1-23-2.htm>.

¹⁹⁰ The time limit of three working days for IP rights holders to reply to customs whether to detain the goods in case of IPR infringement, see note 140.

¹⁹¹ Lubman, see note 131.

When the appellate court is the Supreme People's Court its rulings could increase the uniformity of the application of law. Note that article 41 (4) TRIPs is not to be confused with China's commitment to institute judicial review¹⁹² of a legislative or administrative act.

6.2.1.5 Article 41 (5) TRIPs

Article 41 (5) TRIPs states that members do not have to put in place a judicial system for the enforcement of intellectual property rights that is distinct from the enforcement of law in general, nor does it affect the capacity of members to enforce their law in general. So if China is criticised for inadequately enforcing its copyright, for example, it only has to turn to this TRIPs provision to deflect the claims and state for example that the problems with the enforcement of tax laws in China are not significantly better. Then, article 41 (5) TRIPs requires no special allocation of resources to the enforcement of law in general in absolute terms, nor to the enforcement of intellectual property rights in relative terms. So, again, if the National Copyright Administration of China is staffed with only 200 persons for nationwide enforcement of copyright¹⁹³, China is able to refute any critique of its alleged undersourcing by pointing to this provision. Besides, China is unique in offering an administrative route of IP enforcement, which can be seen as an extra venue not offered by any of China's Western critics.

6.2.2. Article 46 TRIPs other remedies

Before the content of article 46 TRIPs is dealt with below, its ambition level is assessed. The wording of article 46 TRIPs could have had four paragraphs¹⁹⁴, for every sentence

¹⁹² Upon accession to the WTO China committed to institute judicial review of administrative actions. Article 2 (D)1 Protocol of Accession: "China shall establish or designate and maintain tribunals contact points and procedures for the prompt review of all disputes relating to the implementation of laws, regulations judicial decisions and administrative rulings of general application... Such tribunals shall be impartial and independent of the agencies entrusted with administrative enforcement...", pg 3, available at: <http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN002123.pdf>.

¹⁹³ Alford, see note 102, pg 3.

¹⁹⁴ Article 46 TRIPs: (1) In order to create an effective deterrent to infringement, the judicial authorities shall have the authority to order that goods that they have found to be infringing be, without compensation

one. The first two paragraphs¹⁹⁵ use the words “shall have the authority”. Hence, the first two paragraphs of article 46 TRIPs¹⁹⁶ are drafted as an obligation to legislate, not to enforce, just as article 41 (1) TRIPs.

Article 46 TRIPs lays out that courts, to create an effective deterrent, should be able to order to dispose infringing goods outside the channels of commerce. This should be done in such a way as to avoid harming the right holder, or unless this would be contrary to existing constitutional requirements, destroyed. Article 46 TRIPs also states that court should have the authority to order that materials and implements that have been predominantly used in the creation of infringing goods, disposed of, without any compensation in order to minimise the risk of further infringements. Article 46 TRIPs specifies that in considering such requests, the courts have to take into account proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties. In regard to counterfeit trademark goods, the removal of the trademark unlawfully affixed in most cases is not sufficient to permit release of the goods onto the market, according to this provision¹⁹⁷.

of any sort, disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, or unless this would be contrary to existing constitutional requirements, destroyed.

(2) The judicial authorities shall also have the authority to order that materials and implements the predominant use of which has been in the creation of the infringing goods be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to minimize the risks of further infringements.

(3) In considering such requests, the need for proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties shall be taken into account.

(4) In regard to counterfeit trademark goods, the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce.

¹⁹⁵ See note 194.

¹⁹⁶ See note 194.

¹⁹⁷ “Some items commonly counterfeited in China will not amount to a very ‘large income’.

Counterfeit labels themselves are not very valuable before they are attached to their pricey counterpart. Many labels can be manufactured, distributed and shipped before they are attached to their counterfeited luxury component”, James Tunkey and Pamela Beitleman, ‘I-OnAsia IPR in China Brief’, Pg 7, available at: http://www.ionasia.com.hk/pdf/IPR_in_China.pdf.

Although articles 47 Copyright Law¹⁹⁸ and 53 Trademark Law¹⁹⁹ only give explicitly the authority to the respective administration departments to confiscating and destroying infringing reproductions, people's courts can also order infringers to either destroy or return illegal copies²⁰⁰. The Patent Law remains silent about disposing infringing goods outside the channels of commerce, but here too, the court can order the destruction of infringing goods. The proportionality of the destruction of the infringing products is up to the courts' discretion. Right holders are still required to bear expenses for destruction or storage in some cases, which is strange because they are the wronged party. Article 46 TRIPs states that the disposal outside the channels of commerce should take place without any compensation to the infringer. However, one could argue that when the plaintiff is paying for the destruction or storage, it is de facto paying what the infringer should have done. In addition, article 41 (2) TRIPs prohibits procedures that are unnecessarily costly, this could be one of such a procedure.

Chapter 7 Criminal enforcement

Much, maybe too much, is expected from criminal enforcement in China, because of its alleged deterrent effect. The number of warrants and prosecutions have significantly

¹⁹⁸ ¹⁹⁸ Article 47 Copyright Law: Anyone who commits any of the following acts of infringement shall bear civil liability for such remedies as ceasing the infringing act, eliminating the effects of the act, making an apology or paying damages, depending on the circumstances' and may, in addition, be subjected by a copyright administration department to such administrative penalties as ceasing the infringing act, confiscating unlawful income from the act, confiscating and destroying infringing reproductions and imposing a fine; where the circumstances are serious, the copyright administration department may also confiscate the materials, tools, and equipment mainly used for making the infringing reproductions; (...).

¹⁹⁹ Article 53 Trademark Law: (...) Where it is established that the infringing act is constituted in its handling the matter, the administrative authority for industry and commerce handling the matter shall order the infringer to immediately stop the infringing act, 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 trademark, and impose a fine. (...).

²⁰⁰ In a decision, issued September 27, 2003, against Beijing based New Oriental School for flagrant copying of examination papers of US based Educational Testing Service (ETS) and Graduate Management Admission Council (GMAC) for copyright and trademark infringement, Beijing No. 1 Intermediate Court ordered New Oriental to pay compensation of Rmb10 million (US\$1.2 million) to the two plaintiffs, publish a public apology in the Chinese newspaper Legal Daily, and either destroy or return all illegal copies. Timothy Browning and Carol Wang, 'Enforcement', China IP Focus 2004, MIP, available at: <http://www.managingip.com/Default.asp?Page=17&PUBID=199&ISS=12717&SID=473364&SM=>.

increased year-on-year²⁰¹. There could be several explanations for this²⁰². But the statistics alone are inconclusive to support any progress in enforcement or infringement in China. The criminal enforcement route will be navigated in Chapter 7.1, followed by an assessment of whether China's IP enforcement system is sufficient to provide a deterrent, as article 61 TRIPs prescribes in Chapter 7.2.

7.1 Criminal enforcement route

The Public Security Bureau²⁰³ (PSB) of the Ministry of Public Security (MPS) is China's equivalent of the police. The People's Procuratorate Bureau²⁰⁴ (PPB), China's prosecution, has to approve formal arrests of suspects and file prosecutions with the court. The PSB and PPB base their criminal investigations of IPR infringements on the Criminal Law²⁰⁵, which distinguishes seven types of IPR infringements as crimes²⁰⁶.

²⁰¹ From 2000 to 2004: Chinese courts accepted 1,710 IP criminal cases, from which 1,948 defendants were prosecuted for IPR criminal offences, of whom 90 percent were counterfeit trademark offenders, according to Xinhua News Agency, '1,710 IPR Violations Handled Since 2000' China Daily, December 22, 2004, available at: <http://www.chinaiprlaw.com/english/news/news40.htm>.

From January to May 2005: the procuratorate departments warranted the arrest of 882 persons involved in the production and selling of fake and shoddy products, up 51.5 percent year on year. "Altogether 844 of them were prosecuted, up 45 percent year on year," Zhang said. According to Zhang the procuratorate departments also warranted the arrest of 340 suspects involved in IPR infringement, 58.9 percent more than a year earlier, with 258 of them prosecuted, up 20.6 percent.

From January to November 2006: the total amount of IP criminal cases increased significantly to over 4,600 cases. And the PSB has arrested more than 5,000 people in relation to counterfeit and inferior goods cases, according to Xinhua News Agency, '5,000 Arrested in Counterfeit, Inferior Goods Cases', January 10, 2007, available at: <http://www.china.org.cn/english/China/195598.htm>.

²⁰² It could signify that some of the criminal thresholds have been relaxed and more infringers are eligible for criminal prosecution; or that more resources were allocated to the PSB or that it increased its productivity; or arrest warrants were more easily given and restrictions to prosecute were used less; or the total number of infringements has increased. The growth in seized counterfeit and pirated products at international ports by customs, suggests the latter explanation should be taken seriously.

²⁰³ The Public Security Bureau (PSB), see at: <http://www.mps.gov.cn> in Chinese.

²⁰⁴ China Today, 'Introduction to the People's Procuratorates of the PRC', available at: <http://www.chinatoday.com/law/a1.htm>.

²⁰⁵ Criminal Law, revised on March 14, 1997.

²⁰⁶ 1. Article 213 Criminal Law: counterfeiting registered trademarks; 2. Article 214 Criminal Law: selling goods bearing counterfeited trademarks; 3. Article 215 Criminal Law: forges another's trademarks 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; 7. Article 219 Criminal Law: infringing commercial secrets.

Three different ways of criminal enforcement can be distinguished. The first is the public prosecution, when the PSB and PPB start prosecuting initiated by the rights holder or ex officio²⁰⁷. In normal cases, there is a gap of weeks or months between a raid and an investigation, according to Chang²⁰⁸. This means that in the meantime the number of infringement cases can increase, without the suspected ringleader being arrested. Chang encourages the initiative of the Minister of Public Security in Shanghai that was passed in April 2006 to allow the PSB to start investigations based on suspicious leads rather than being restricted by the threshold²⁰⁹. It often costs the PPB²¹⁰ two to three months to prepare a prosecution so that it can be accepted and heard by the criminal chamber of a Basic People's Court in the first instance. Criminal cases are usually not so complex, because they involve straightforward product copying. Significant or complicated cases can be filed at or transferred to the Intermediate People's Court. The courts of second instance are then respectively, the Intermediate People's Court and the Higher People's Court. Just as with civil cases the second instance is final. Courts will normally spend one to two months hearing the case before issuing a judgment²¹¹.

The PSB is more inclined to devote significant resources to investigate infringement and bring criminal actions when the case involves public health and safety issues²¹². Thus

²⁰⁷ Administrative authorities of NCA, AIC, TSB and SIPO may not detain infringers for interrogation, and may not force the entry of closed premises. The IP protection division set up within the recently created Economic Crime Investigation Department (EDID) of the Ministry of Public Security is able to do this. It is expected that such divisions will be set up at all levels of PSB. Ranjard and Misonne, see note 109, pg 29.

²⁰⁸ "Normally the police raid first and bring back the inventory and the suspect to evaluate the total amount," Jack Chang, senior IP counsel, Asia, for GE and chairman of the Quality Brands Protection Committee of the China Association of Enterprises with Foreign Investment, in a roundtable discussion 'Mapping the Future of IP in China', *Managing Intellectual Property*, August 2006, available at: <http://www.managingip.com/?Page=10&PUBID=34&ISS=22412&SID=648532&TYPE=3>.

²⁰⁹ The same is advocated by Myron Brilliant: "Intellectual property owners need Chinese police to be user-friendly. Proactive investigations by Chinese police are particularly needed in cases which are difficult to investigate privately, e.g., cases involving large syndicates and those that operate in the shadows of cyberspace," Brilliant, see note 15, pg 9

²¹⁰ Rouse & Co. International, 'China, Criminal Action Practice', pg 2, available at: http://www.iprights.com/assets/pdf/CN_criminalactionpractice.pdf.

²¹¹ Rouse & Co. International, see note 210, pg 2.

²¹² "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.chinabusinessreview.com/public/0601/firth.html>.

Firth recommends to piggy-back on large scale IPR protection campaigns²¹³. China is deploying massive legal campaigns to redirect the masses of IP infringers on the right path. The long-term effectiveness of these campaigns can be doubted, see Chapter 8.3 about China's proclivity for enforcement by mass campaigns.

The second way is launching a private criminal prosecution, based on article 170 Criminal Procedure Law. A private criminal prosecution case can be filed under one of the following conditions of a non-exhausted list: when a victim comes up with the claim, in case of minor criminal cases, and when the victim has evidence to prove the infringement²¹⁴. If the case is serious, and the PSB and the PPB refuse to prosecute the case, the complainant can also file a suit based on article 170 (3) Criminal Procedure Law. Gordon Gao advises to launch private criminal prosecutions²¹⁵, because, due to their workload the prosecutors have barely time.

The third way is when administrative authorities refer their case to the PSB. Despite provisions in the Trademark, Product Quality and Patent Law that implicitly²¹⁶, and a provision in the Customs Law that explicitly²¹⁷, refer to the PSB, less than a percent of the total trademark and copyright cases handled by administrative authorities were turned over to the PSB for prosecution in 2005^{218 219}. China acknowledges²²⁰ the problem,

²¹³ Firth, see note 212.

²¹⁴ Article 170 Criminal Procedure Law: Cases of private prosecution include the following: (1) cases to be handled only upon complaint; (2) cases for which the victims have evidence to prove that those are minor criminal cases; and (3) cases for which the victims have evidence to prove that the defendants should be investigated for criminal responsibility according to law because their acts have infringed upon the victims' personal or property rights, whereas, the public security organs or the People's Procuratorates do not investigate the criminal responsibility of the accused.

²¹⁵ Gordon Gao, 'How to Bring a Criminal Action in China', *Managing Intellectual Property*, June 2005, available at: <http://www.managingip.com/default.asp?page=10&PUBID=34&ISS=16357&SID=514071>.

²¹⁶ Articles 59 and 62 Trademark Law and 57, 64 and 68 Patent Law and 50 and 61 Product Quality Law.

²¹⁷ Article 26 Customs Law.

²¹⁸ "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," Brilliant, see note 15, pg 8.

²¹⁹ The reluctance might have been partly caused by the lack of objective standards in the Criminal Law, but this problem has been resolved with the promulgation of the Interpretation 2004, see below. There are still some bone fide explanations for the administrative authorities' reluctance: even when they have referred criminal cases, the criminal prosecutors either do not prosecute or when they do, the sentences and fines are not effectively enforced. "Indeed even when judgements have been awarded, their effectiveness is mitigated by the difficulty of obtaining effective enforcement," Australian Chamber of Commerce and Industry, 'China FTA – Need for Progress on Intellectual Property Rights', January 2006, available at:

reiterated commitments²²¹ and came up with four guidelines²²² to ensure a timely referral²²³. However, it should be noted that China started as of October 2000 promulgating regulations that had the same objective²²⁴, obviously to no avail. March 2006 the Supreme People's Procuratorate gave an opinion about the regulations that explains the responsibility, procedures and deadlines for administrative authorities for a timely transfer of suspected criminal cases to the Public Security Bureaus²²⁵. However, in 2006 the Economic Crime Investigation Department (ECID) of the Ministry of Public Security has promulgated joint provisional regulations where the idea of transfer is

http://www.acci.asn.au/text_files/issues_papers/Trade/January%2006%20-%20China%20FTA.pdf. Ranjard and Misonne point out to financial incentives for the disinclination to transfer a case that offers the potential of a substantial fine. And if they do transfer, they insist to issuing such a fee beforehand. Ranjard and Misonne, see note 109, pg 12.

²²⁰ In 2004 the National Working Group for IPR Protection under Vice Premier Wu Yi decided to increase the coordination across the Ministry of Commerce (MOFCOM), the People's Procuratorate, the Ministry of Public Security, and SAIC, NCAC and GAC, Brilliant, see note 15, pg 8.

²²¹ In November 2005, during the Joint Commission on Commerce and Trade (JCCT) between the US and China, China agreed to increase the number of criminal prosecutions for intellectual property rights violations in comparison to the number of administrative cases, USTR, 'US-China Joint Commission on Commerce and Trade Outcomes on Major US Trade Concerns', November 7, 2005, available at: [http://www.ustr.gov/Document_Library/Fact_Sheets/2005/The_US_China_Joint_Commission_on_Commerce_Trade_\(JCCT\)_Outcomes_on_Major_US_Trade_Concerns.html](http://www.ustr.gov/Document_Library/Fact_Sheets/2005/The_US_China_Joint_Commission_on_Commerce_Trade_(JCCT)_Outcomes_on_Major_US_Trade_Concerns.html).

²²² Between January and March 2006, the Supreme People's Court, the Supreme People's Procuratorate and the Ministry of Public Security have issued four guidelines to ensure the timely referral of IPR violations from administrative bodies, for the SAIC, NCAC and GAC to criminal prosecution and for the State People's Procuratorate itself, Brilliant, see note 15, pg 10.

²²³ 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 15, pg 10.

²²⁴ According to the Ministry of Commerce (MOFCOM) China already started as of October 2000 promulgating "clear provisions on relevant issues" concerning the cooperation between administrative law enforcement organs and public security organs and the people's procuratorates with respect to intellectual property rights protection. In July 2001, the State Council promulgated the "Regulations on the Transfer of Suspected Criminal Cases by Administrative Law Enforcement Organs," which includes clear provisions on how the administrative law enforcement organs should transfer suspected criminal cases to public security organs in a timely fashion, MOFCOM, 'Protect Your Intellectual Property Rights in China', available at: <http://www.ipr.gov.cn/en/ip3.shtml>.

²²⁵ The Regulations Regarding Transfer of Cases of Suspected Crimes of the Administrative Law Enforcement Institutions of the State Council and other application regulations: Zhu 'Speech by Zhu Xiaoping, Deputy Procurator-General of the Supreme People's Procuratorate', March 27, 2006, available at: <http://china.org.cn/e-news/news060327.htm>.

replaced by the concept of cooperation between PSB and administrative enforcement agencies²²⁶.

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 Property²²⁷ (Interpretation 2004) clarifies this. Compared with two earlier prosecution guidelines²²⁸, the Interpretation 2004 has significantly reduced the monetary thresholds for trademarks²²⁹. Nevertheless the judicial interpretation was much criticised. It can be argued that the difference in thresholds between enterprises and individuals is arbitrary²³⁰. The Interpretation 2004 states three controversial methods²³¹ for calculating product values produced by infringers, which all undervalue the infringing goods²³².

²²⁶ The cooperation between the PSB and administrative agencies should be implemented in the form of early exchanges of information, joint working sessions, etc. Bai, see note 112. Ranjard and Misonne, see note 109, pg 12.

²²⁷ 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.

²²⁸ 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.

²²⁹ 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 trademark was in 1993, under the Regulations Concerning Criteria for Placing on the Docket Cases Involving the Counterfeiting of Registered Trademarks, 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.

²³⁰ 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.

²³¹ Article 12 Interpretation 2004.

²³² 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.

Unlike its predecessors, Interpretation 2004 lacks provisions that criminalise repeat offenders²³³, the infringement of well-known trademarks²³⁴, or trademarks on pharmaceuticals for human use²³⁵, and where illegal methods such as bribery are used to promote the sale of the counterfeit trademarks²³⁶. Nevertheless, Ross and Chen presume that provisions not appearing in the Interpretation 2004 remain effective²³⁷. 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 procedures²³⁸.

7.2 Criminal deterrence

China's implementation of article 61 TRIPs is one of the most vehemently debated issues. Many WTO members seem to expect a lot of this enforcement route. But they should perhaps do some self reflection first, because criminal enforcement in IPR cases is underdeveloped in most countries, or, as professor Hugenholtz points out, not even available, as is the case with patent law. Maybe that is why there has been no jurisprudence or decision of a competent WTO body thus far.

7.2.1 Article 61 TRIPs

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

²³³ 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.

²³⁴ Articles 61 and 63 Prosecution guideline.

²³⁵ Article 61 Prosecution guideline.

²³⁶ Article 63 Prosecution guideline.

²³⁷ Lester Ross and Grace Chen, 'Strengthening Criminal Liability for IP infringement in China', Intellectual Property Today, March 2005, footnote on pg 23, available at: <http://next.eller.arizona.edu/docs/Strengthening%20Criminal%20Liability%20for%20IP%20Infringement%20in%20China.pdf>.

²³⁸ Article 12 Interpretation 2004.

thresholds and deterrence²³⁹. Deterrence²⁴⁰ is a relative term; a remedy might be a deterrent for some individuals, while neutral to others²⁴¹, assuming a correlation with their circumstances and perception²⁴². A good way to measure a lack of deterrence would be to determine the level of recidivism of IP infringers, as professor Hughes points out²⁴³. According to Timothy Trainer²⁴⁴, 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 exist²⁴⁵. Trainer's allegation that enforcement efforts might get impeded is plausible, since Chinese police is often unwilling to commence investigations until the right owner or administrative authorities have provided convincing evidence that the necessary numerical thresholds have been met²⁴⁶. Article 61 TRIPs promulgates in the second sentence that the deterrent should be consistent with the level of penalties applied for crimes of a corresponding gravity²⁴⁷.

²³⁹ The US Trade Representative confirms a question which is similar but not the same; whether China's high thresholds for criminal liability (i.e., the minimum values or volumes required to initiate criminal prosecution) continue to be a major reason for the lack of an effective criminal deterrent, USTR, see note 168, pg 18.

²⁴⁰ 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.

²⁴¹ 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/>.

²⁴² "[...] 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>.

²⁴³ "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, see note 23, pg 10.

²⁴⁴ Timothy Trainer, former president International Anti-Counterfeiting Coalition, representing US industry worth \$ 650 billion, see here: <http://www.iacc.org>.

²⁴⁵ 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 infringing product in batches, each under the thresholds. Recognising this might be true, this author points out that this goes contrary to the transparency requirement, which is a key factor in IPR enforcement.

²⁴⁶ "Police should be permitted to investigate based on mere suspicion of "serious" infringements and then investigate themselves to build the necessary evidence. If they are already allowed to do this, then this should have been made clear in the guidelines," Trainer, see note 164, pg 18.

²⁴⁷ 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. These penalties include the

Having severe and mandatory imprisonment sentences and monetary fines available on the books is not sufficient to provide a deterrent for criminal behaviour²⁴⁸. Research shows that punishment certainty is far more consistently found to deter crime than punishment severity²⁴⁹. This is especially relevant for China, because one of the prosecutorial ways is hardly used²⁵⁰ and prison sentences and fees are often not served and paid. Also long delays between the criminal act and punishment are not conducive for the deterrence, since imminence is a constituent part of deterrence^{251 252}.

Article 61 TRIPs states that members shall provide criminal procedures and penalties to be applied in cases of wilful trademark counterfeiting or copyright piracy²⁵³ on a commercial scale. The remedies, including imprisonment and/or fees shall be sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity. The term commercial scale in TRIPs, which is a precondition for criminal liability, is ambiguous. Interpretation 2004 gives thresholds to clarify what is meant by commercial scale. Compared with two earlier prosecution guidelines²⁵⁴ the

death penalty: Article 115 Criminal Law in conjunction with article 48 Criminal Law, when someone inflicts serious injury or death on people or causes heavy losses of public or private property by other dangerous means, shall be sentenced to fixed-term imprisonment of not less than 10 years, life imprisonment or death. There was a special law for the punishment for the production and sale of fake/substandard medicines: see article 2 and 3 Decision of the Standing Committee of the National People's Congress on Punishment of the Crimes of Production and Sale of Fake or Substandard Commodities, effective September 1, 1993. However, this law has been invalidated, Ministry of Justice, 'Invalid laws', available at: <http://www.legalinfo.gov.cn/english/LegislativeDeve/LegislativeDeve3.htm>.

²⁴⁸ Besides deterrence it should be noted that by factually imprisoning and fining criminals they may get incapacitated to continue their infringements.

²⁴⁹ "Two prominent findings from this literature are that punishment certainty is far more consistently found to deter crime than punishment severity, [...]", Nagin, see note 242, pg 3.

²⁵⁰ The administrative authorities scarcely refer criminal cases to the criminal prosecution, as aforementioned.

²⁵¹ "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 242, pg 3.

²⁵² 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 242, pg 3.

²⁵³ Articles 217 et seq. Criminal Law seem to criminalize only reproduction and distribution, "while article 61 TRIPs requires criminalization of commercial scale copyright piracy, including, for example unauthorized commercial scale public exhibition of films," Hughes, see note 23, pg 20, footnote 17.

²⁵⁴ Provisions of the Supreme People's Procuratorate and Ministry of Public Security Regarding Prosecution Standards for Cases Involving Economic Crimes, April 14, 2001, the relevant provisions are available at: <http://www.perkinscoie.com/page.cfm?id=95>; 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.

Interpretation 2004 has significantly reduced the monetary thresholds for trademark and copyright infringements, see Attachment Chapter 7, under Criminal thresholds. However, if the numerical thresholds are put in a broader historical context, the level of the thresholds have not necessarily been decreased²⁵⁵. One should realise that even when the thresholds are not met, police, prosecutors and courts still have some discretion to prosecute, see Chapter 7, under Discretion, consistency and predictability.

An important clarification of the Interpretation 2004 is that in order to criminally prosecute an infringer it is not necessary to prove that he actually sold the infringed goods. It also gives clarity about who shall be deemed an accomplice in the crime of infringing on intellectual property²⁵⁶. Someone who knowingly provides the preconditions for infringements, such as funding, transportation, storing, facilities and import-export agency services, commits the crime of aiding and abetting.

7.2.2 Non-compliance with article 61 TRIPs hard to prove

Whether the remedies sufficiently provide a deterrent, as TRIPs requires, is considered the *pièce de résistance* between China and the US, EU, Switzerland and Japan. However, to prove that China is not in accordance with article 61 TRIPs during a WTO dispute settlement case would be hard²⁵⁷. Until there are no binding decisions of the WTO Dispute Resolution Settlement panels on how to exactly interpret article 61 TRIPs, the Vienna Convention on the Law of Treaties can bring some relief, as mentioned in Chapter 1.1.5 How to interpret TRIPs. In the case of article 61 TRIPs the preamble and annexes of TRIPs remain silent, so only the text is relevant. Because of the second

²⁵⁵ For example the thresholds for use of a counterfeit trademark was in 1993, under the Regulations Concerning Criteria for Placing on the Docket Cases Involving the Counterfeiting of Registered Trademarks, 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.

²⁵⁶ Article 16 Interpretation 2004.

²⁵⁷ To prove that China's criminal remedies do not sufficiently provide a deterrent, one should negate the fact that there is any correlation between China's remedies and a deterrence effect. However, if deterrent is interpreted as sufficient in itself, than China's remedies should be compared to the remedies of comparable WTO member economies. This could be extremely difficult, because of the unique characteristics of China's economy and developmental stage. Only if this comparison can be made, and China's level of remedies turn out to be significantly lower, it may be determined that China is not in accordance with article 61 TRIPs.

sentence of article 61 TRIPs and article 41 (5) TRIPs, members have only made a commitment to make remedies available that are sufficient to provide a deterrent, which do not have to be distinct from law in general, so the accountability is not results oriented²⁵⁸.

Chapter 8 Extra-judicial factors

Chapter 8.1 will question the cultural, social and economical influences of Confucianism, communism and developmental stages as reasons for inadequate IP enforcement. Next, extra-judicial factors and their influence on IP enforcement in China will be assessed in Chapter 8.2. China's inclination to enforce IPR using mass campaigns will be analysed in Chapter 8.3. This will be followed by Chapter 8.4 which presents four IPR paradoxes in China.

8.1 Confucianism, communism and developmental stages

One could say that the legacy of communism would leave a notion of ownership as a fairly weak concept. This influence, although abating²⁵⁹, seems to be a bigger influence on IPR than Confucianism²⁶⁰. Hong Kong, Taiwan and South Korea, all countries that have not been communist and have cultures that are historically steeped in Confucianism, are evidence that Confucian doctrine does not have to be an impediment to the respect of IPR enforcement. Even more importantly, all these Asian Tigers have gone through

²⁵⁸ An alternative method, which is based on the assumption of a correlation between the level of deterrents and the number of infringements, could be to obligate every WTO member to provide minimum criminal remedies in relation to the number of infringements, so the provision would be more results oriented. In other words, when the number of infringements in a WTO member is relative high compared to other WTO members, the deterrents should also go up relatively.

²⁵⁹ The influence of communism is decreasing. In 1992 after Deng Xiaoping's tour to southern China the National People's Congress incorporated the concept of the socialist market economy in the constitution. Amended in March 1993, article 15 constitution: "The state has put into practice a socialist market economy. The state strengthens formulating economic laws, improves macro adjustment and control and forbids according to law any units or individuals from interfering with the social economic order." And article 13 states that citizens' lawful private property is inviolable.

²⁶⁰ Alford describes Confucianism in short as celebrating the past, emulating rather than creation, see note 102, pg 3.

certain phases in IP development²⁶¹, which correlate with economic stages. However, in this thesis IPR enforcement is not solely seen as an endogenous variable²⁶², but as an exogenous variable²⁶³ as well (see Chapter 8.4 Four IPR paradoxes).

8.2 Extra-judicial factors influencing IP enforcement

Although this thesis concerns law and not sociology, politics or economics, these are important factors that may be outside the dogmatic realm of law, but must be accounted into the equation. The interaction of law and extra-judicial factors can explain some of the problems China is facing in respect to the enforcement of IPR.

8.2.1 Rule of law

The Chinese society is “in the process of transition²⁶⁴ from supremacy of the power to supremacy of the law,”²⁶⁵. Rule of law is a principle²⁶⁶ intended to safeguard against arbitrary governance. Governmental authority can only be exercised legitimately in accordance with written and publicly disclosed laws and enforced in accordance with established procedure. Here, it would mean the consistent, uniform and impartial

²⁶¹ Boston Consulting Group distinguishes between five phases: 1. Driving growth through export; 2. Climbing the value ladder; 3. Paying the price; 4. Getting serious about IP; 5. Profiting from IP. It can be argued that different sectors of China’s economy are in phase 2, 3 and 4, respectively.

Mark Blaxill et al., ‘Beyond the Great Wall: Intellectual Property Strategies for Chinese Companies’, Boston Consulting Group, January 2007, available at:

<http://www.bcg.com/publications/files/BeyondGreatWallJan2007.pdf>.

²⁶² Endogenous variable is a factor in a causal system whose value is dependent from the states of other variables in the system.

²⁶³ Exogenous variable is a factor in a causal system whose value is independent from the states of other variables in the system.

²⁶⁴ Peerenboom argues that China is in transition from rule by law to a version of rule of law. Randall Peerenboom, ‘China’s Long March Toward Rule of Law’, Cambridge University Press, 2002, preface.

²⁶⁵ “The Chinese society is now in the process of transition from too much emphasis on the rule of person and insufficient emphasis on the rule of law to establishing concept of the rule of law, from supremacy of the power to supremacy of the law, from too much emphasis on duties and insufficient emphasis on rights to establishing a correct notion about rights and obligations,” Embassy of the People’s Republic of China in the USA, ‘Human Rights Achievements in China’, April 9, 2000, available at: <http://www.china-embassy.org/eng/zt/zgrq/t36636.htm>.

²⁶⁶ Rule of law is one of the principles of Baron de Montesquieu, ‘The Spirit of the Laws’, 1748, available at: <http://www.constitution.org/cm/sol.htm>.

application of law throughout China²⁶⁷. This would lead to legal security for the citizens and a consistent application of laws.

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, which will be the case for as long as the leading role of the Chinese Communist Party over China's society is not legitimised by any democratic electorate²⁶⁸. Former president Jiang Zemin introduced in 1996 its own Chinese version of the rule of law²⁶⁹, to try to reconcile the irreconcilable. In 1999 this contradictio in terminis even found its way in article 5 Constitution²⁷⁰ by combining the rule of law with building a socialist country of law, which implies the need for the dictatorship²⁷¹ of the Chinese Communist Party²⁷².

What does a rule of law with Chinese characteristics, or in other words a strong state, mean to IPR enforcement? It is a myth to believe that respect for intellectual property can be found more in strong states than in democratic societies, according to professor

²⁶⁷ Protocol of Accession (Art. 2 (A) 2): China shall apply and administer in a uniform, impartial and reasonable manner all its laws, regulations and other measures of the central government as well as local regulations, rules and other measures issued or applied at the sub-national level) collectively referred to as "laws, regulations and other measures") pertaining to or affecting trade in goods, services, trade-related aspects of intellectual property rights ("TRIPs") or the control of foreign exchange. See note 192, pg 2.

²⁶⁸ Stan Abrams, partner of Lehman, Lee & Xu in Beijing disagrees with this position in an email, March 26, 2007: "It is very possible that rule of law can be implemented within a strong State that reaches only to a certain point in the central government".

²⁶⁹ President Jiang Zemin, February, 1996: "Let China be ruled by law. And "maintain the long-term stability of the nation," Lubman, see note 131.

²⁷⁰ Article 5 [Socialist Legal System, Rule of Law]

(1) The People's Republic of China practices ruling the country in accordance with the law and building a socialist country of law.

(2) The state upholds the uniformity and dignity of the socialist legal system.

(3) No law or administrative or local rules and regulations shall contravene the Constitution.

(4) All state organs, the armed forces, all political parties and public organizations, and all enterprises and undertakings must abide by the Constitution and the law. All acts in violation of the Constitution and the law must be looked into.

(5) No organization or individual may enjoy the privilege of being above the Constitution and the law.

²⁷¹ According to Marxism-Leninism a state needs the dictatorship of the proletariat, Vladimir I. Lenin, 1925, 'Dictatorship of the Proletariat', available at:

<http://www.marxists.org/archive/lenin/works/1919/sep/x02.htm>. And according to the doctrines of Mao Zedong, Deng Xiaoping and Jiang Zemin, the People's Democratic Dictatorship would be necessary. Mao Zedong, 'The People's Democratic Dictatorship', June 30, 1949, available at:

<http://www.fordham.edu/halsall/mod/1949mao.html>.

²⁷² The idea was that the Chinese Communist Party would wither away when the country would reach a socialist state of existence: 'Society of great equality: Datong', available at:

http://en.wikipedia.org/wiki/People's_democratic_dictatorship.

Alford²⁷³. Another point Alford is making is that it is not a question of either protecting IP or protecting human rights. Rather: the rule of law, including such fundamental rights as human rights²⁷⁴, is a precondition for such private rights as IP rights²⁷⁵.

8.2.2 Lack of transparency

To know whether China complies to TRIPs one needs to know what it is actually doing to enforce intellectual property and what the level of infringements are. In fact, if China would enforce IPR adequately, transparency would not be a crucial issue for other WTO members. Upon accession to the WTO, China committed to establish an official journal dedicated to the publication of all laws, regulations and other measures pertaining to or affecting TRIPs²⁷⁶. This official journal would increase transparency and could also enhance the drafting, issuance and implementation of IP measures. China relied first on dispersed distribution channels, but since March 2006, the State Council issued a notice directing central, provincial and local government entities to begin sending copies of all their trade-related measures to the Ministry of Commerce (MOFCOM) for immediate publication in the MOFCOM Gazette. So far the adherence is still incomplete, according to the USTR²⁷⁷.

It is even better to know the draft versions of laws and regulations, before they are implemented, so the outcome can still be influenced. Upon China's WTO accession it

²⁷³ Alford, see note 102, pg 5. An example of Alford's assertion could be North Korea, the epiphany of a strong state, and the country where money counterfeiting is a massive state operation.

²⁷⁴ Alford, see note 102, pg 5

²⁷⁵ Alford's theory is in line with the outcry of Senator Tom Coburn of Oklahoma, who said after visiting China, that a country that doesn't protect human rights would have no respect for IPR and other minor rights, Liu Kin-ming, 'Get it right on rights', Hong Kong Standard, June 10, 2006, available at: http://www.thestandard.com.hk/news_detail.asp?pp_cat=15&art_id=21045&sid=8474350&con_type=1.

²⁷⁶ Article 2 (C) 2 Protocol of Accession: China shall establish or designate an official journal dedicated to the publication of all laws, regulations and other measures pertaining to or affecting trade in goods, services, TRIPs or the control of foreign exchange and, after publication of its laws, regulations or other measures in such journal, shall provide a reasonable period for comment to the appropriate authorities before such measures are implemented, except for those laws, regulations and other measures involving national security, specific measures setting foreign exchange rates or monetary policy and other measures the publication of which would impede law enforcement. China shall publish this journal on a regular basis and make copies of all issues of this journal readily available to individuals and enterprises. See note 192, pg 2.

²⁷⁷ USTR, 2006 Report to Congress on China's WTO compliance, December 11, 2006, pg 96, available at: http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/asset_upload_file688_10223.pdf.

agreed to provide a reasonable period for these public comments on new or modified laws and regulations, except in certain specific instances, enumerated in China's accession agreement²⁷⁸. Another obligation is that they have to translate these drafts and finished versions into one or more of the WTO languages (English, French and Spanish)²⁷⁹.

Despite hundreds of laws and regulations that were issued at different levels, China hardly gave other countries the opportunity beforehand to comment in 2002 and 2003. Although the State Council issued regulations in 2001, addressing the procedures for the formulation of administrative regulations and rules and expressly allowing public comment. In 2004, some improvements took place, particularly on the part of MOFCOM, which began following the rules set forth in its Provisional Regulations on Administrative Transparency issued November 2003. In the area of IPR, several ministries and agencies circulated proposed measures for public comment in 2005 and 2006²⁸⁰.

The State Council issued a regulation on December 2001 which requires the publication of new or amended regulations thirty days before their implementation. This is not the same as the establishment of public comment procedures where WTO members, citizens and companies are invited to reply, but at least other WTO members can react on their own initiative. As China committed upon accession²⁸¹, almost all new or revised laws and regulations have been available in Chinese soon after issuance and prior to their effective date, not only in official journals, but also on different websites. However, the translations of these laws and regulations lag behind²⁸².

²⁷⁸ Article 2 (C) 2 Protocol of Accession, see note 192, pg 3.

²⁷⁹ Article 8 (1) A Protocol of Accession, see note 192, pg 6.

²⁸⁰ USTR, see note 277, pg 96.

²⁸¹ Protocol of Accession article 2 (C) 1: China undertakes that only those laws, regulations and other measures pertaining to or affecting trade in goods, services, TRIPs or the control of foreign exchange that are published and readily available to other WTO members, individuals and enterprises, shall be enforced. In addition, China shall make available to WTO members, upon request, all laws, regulations and other measures pertaining to or affecting trade in goods, services, TRIPs or the control of foreign exchange before such measures are implemented or enforced. In emergency situations, laws, regulations and other measures shall be made available at the latest when they are implemented or enforced. See note 192, pg 2.

²⁸² USTR, see note 277, pg 96.

China's size and necessary decentralisation make aggregating relevant information an Herculean task. Also, the communist heritage of China may not be conducive for letting foreign observers look over their shoulders. Then, even if they do, there is the language barrier and confusion brought about in translations²⁸³. However, China has started putting more effort in publicising and translating laws, judicial interpretations, guidelines²⁸⁴ and statistics about intellectual property enforcement measures. On a business sector level, one can find also some optimistic views about transparency, for example in the case of China's film industry²⁸⁵.

China is not the only one to blame for its lack of transparency. Trade associations and lobby groups have their own agenda. Some argue that Business Software Alliance has misrepresented the facts²⁸⁶ or that Motion Picture Association of America claims a right to misrepresent the facts²⁸⁷. The information about the experiences of overseas right holders in China are crucial for other right holders to learn from, but are almost never shared²⁸⁸. And because of the opaqueness, hardly any party in China ever settles; they cannot appropriately estimate the outcome of litigation²⁸⁹.

²⁸³ Even if the language barrier is overcome, confusion can arise. For example this author came across three different names given to the same judicial interpretation: 1. Provisions of judicial interpretation of supreme people's court on the applicable laws in deciding patent damages; 2. Judicial Interpretation of the Supreme People's Court on Questions Regarding Applicable Laws for Adjudication of Patent Dispute; 3. Regulations on the applicable laws in the trial of patent dispute. This does not simplify the search process.

²⁸⁴ "The publication of the Examination and Review and Adjudication Board Guidelines are a particularly welcome new development and they appear to illustrate an increasing confidence on the part of the Chinese Intellectual Property Office to expose its decision making processes to external scrutiny," Esler, see note 24.

²⁸⁵ Mike Ellis of MPA in Asia: "We're starting to get more transparency from the actions they've taken. Historically, they would always come back to you and say, "We did a thousand raids, and we seized millions of discs," no specifics. The last meeting, they said, "We raided the following shops, prosecuted the following shops, this license was revoked here." They finally got down to specifics," Louis Hau, Hollywood's China syndrome, Forbes, June 28, 2006, available at:

http://www.forbes.com/home/digitalentertainment/2006/06/28/china-hollywood-piracy_cx_lh_0628piracy.html.

²⁸⁶ "BSA or just BS", Economist, May 19, 2005, available at:

http://www.economist.com/business/displaystory.cfm?story_id=E1_PJJQNS.

²⁸⁷ Ryan Singel, "Copyright Groups Continue Fight Against Anti-Lying and Spying Bill-Updated", Wired Thread Level, April 11, 2007, available at:

http://blog.wired.com/27bstroke6/2007/04/copyright_group.html.

²⁸⁸ "One of the most depressing features noticed by attorneys practising in intellectual property enforcement in China is the number of companies which repeat the same mistakes which have been made by other companies. Perhaps this may be explained by the absence of an effective means through which companies can benefit from the experience [..]," Esler, see note 24.

²⁸⁹ "Chinese judges often complain to us how cases in China almost never settle. They attribute this to the newness of so many of China's laws and so few Supreme Court decisions on them. Without clear and

8.2.2.1 Enforcement/infringement ratio

China's statistics often present a growth in the number of litigation cases or warrants and prosecutions. On itself this does only give an indication to what China's enforcement efforts are in absolute terms, but does not say anything about a progress or decline in China's IP enforcement, because nothing is known about the total amount of infringements. That is why this author proposes the use of an enforcement/infringement ratio. In other words: total number of litigations divided by the total number of infringements. Measuring this ratio from year to year can show the direction IP enforcement in China is going; progress, stability or a decline.

Denominator: enforcement

One could use the aggregate number of foreign companies that effectively made use of China's enforcement routes (administrative, litigation, criminal and customs). A problem is that companies that enforce their IPR in China do not want to tell the world about it, because they fear that this will deteriorate their business opportunities in China. To overcome this anxiety an anonymous database could be made available.

Nominator: infringement

The total number of IP infringements is very hard to determine for China. One could use the seized infringed goods originating from China by a network of customs outside China. The checks should be done in a uniform way. Up to now, the value of China's exports of counterfeit and pirated goods is bigger than that of counterfeited and pirated goods used for domestic consumption. That is why using the data of the seizures of counterfeit and pirated goods by a network of foreign customs are relevant.

The theoretical idea of the ratio was well received by experts of the World Customs Organisation (WCO), European Union Directorate General Taxation and Customs Union (EU DG Taxud) the Organisation of Economic Cooperation and Development (OECD). But all had questions about the practicalities of the ratio: How to get reliable data? The

established law, nobody knows how the court will rule. The lawyers with whom we work in China say the same thing. We hear that around 90% of the business cases filed in China actually go to trial," Dan Harris, 'Chinese Litigation: Why Forsake The Thrill Of The New?', China Law Blog, September 13, 2006, available at: http://www.chinalawblog.com/chinalawblog/2006/09/chinese_litigat.html.

OECD released part IV, the executive summary (parts I-III will be made public later), of a comprehensive report about the economic impact of counterfeiting and piracy world wide. Its conclusion is that transparency about IP enforcement is key²⁹⁰, but that in practice it is very hard to gather reliable data, even for the OECD, with all its expertise and resources. A fortiori this might be the case for data about IP enforcement in China.

8.2.2.2 Article 63 (3) TRIPs

Article 63 TRIPs is the transparency provision of TRIPs. If a WTO member has reason to believe that a specific judicial decision or administrative ruling or bilateral agreement in the area of IPR affects its rights under TRIPs, it may request in writing to be given access or to be informed. October 25, 2005 the US made use of this provision and sent a letter to China with a request²⁹¹ to give clarifications regarding specific cases of IPR enforcement that China has identified for the years 2001 through 2004²⁹², and other relevant cases.

²⁹⁰ The executive summary of the OECD report says:

"Information on counterfeiting and piracy falls far short of what is needed for rigorous analysis and for policymaking. Priority should be given to (i) improving information that is available from enforcement activities (i.e. customs and other law enforcement agencies) and (ii) expanding the use of surveys to collect basic information on developments from right holders, consumers and governments." These additional information should be, according to the OECD, systematically collected, comparable and comprehensive. OESO, 'The Economic Impact of Counterfeiting and Piracy Executive, Part IV Executive Summary', June 4, 2007, pp 18-21, available at <http://www.oecd.org/dataoecd/11/38/38704571.pdf>. Mr. Wolfgang Hübner, counselor in the OECD's Directorate for Science, Technology and Industry, asked by phone about the biggest challenge to get transparency about IP enforcement: "Data data and data." The methodology of the OECD report was to send a questionnaire to all WTO member countries of which 90 responded. The quality of those responses was not consistent.

²⁹¹ First, China was asked to identify the legal basis for any finding of intellectual property rights infringement, and how many of these findings were resolved on a basis other than IP rights infringement. Second, to give comprehensive information about the "precise nature and amount of all the remedies and provisional measures imposed" in the cases, as well as information on matters involving repeat infringers. Third, the US requests information on the year the cases in question were begun and resolved; the location; and the name of the competent authority. Fourth, it asks China to provide details of trademark and copyright cases transferred to criminal authorities. Fifth, to clarify whether in the cases involving foreigners, "the rights holders are nationals of other WTO members or other countries," and if possible, which ones. And finally, the United States says it "would appreciate clarification of the specific type(s) of products and operations involved in all of the identified cases where such information exists", Tove Iren S. Gerhardsen, 'US, Switzerland, Japan Launch New WTO Probe On China's IP Enforcement', November, 26, 2005, available at: <http://www.ip-watch.org/weblog/index.php?p=120&res=1280&print=0>.

²⁹² "2001-2004, the industry and commerce administrations investigated 169.6 thousand trademark infringement cases, 300 persons from 286 cases transferred to the judicial bodies; 2004, copyright administrations investigated 9,691 copyright infringement cases, with 7,986 administrative penalties", Yang Guohua, 'A Debate on Transparency, Different Views on Article 63.3 of the WTO TRIPs Agreement', 2005, available at: <http://cniss.wustl.edu/publications/guohua1.pdf>.

Japan and Switzerland²⁹³ separately sent letters of request to China. On December 22, 2005, China responded to the US that it had strictly fulfilled all its WTO obligations under article 63 TRIPs. According to China, the competent domestic IPR authorities already have made the relevant information publicly available through their official websites, newspapers, magazines and other proper channels. Besides it has provided much information concerning IPR legislations and their enforcement through bilateral exchange and cooperation activities with WTO members. China wrote that the US did not provide the reasons and facts in the letter to prove that it has “reason to believe” that its rights are affected under the agreement. Besides, according to China the cases of IPR identified by China for the years 2001 through 2004 and other relevant cases are not “a specific case”, as article 63 (3) TRIPs states²⁹⁴. The US response on January 20, 2006 was that China cited several times²⁹⁵ these cases in relation to the question of its compliance with TRIPs²⁹⁶. The USTR reported²⁹⁷ that China had provided previously unavailable IPR criminal prosecution data, and the two governments identified specific areas in which China will work toward greater transparency on IPR enforcement matters. China also stated that it would make a database of IPR enforcement statistics available to the public on the internet in both Chinese and English to consolidate diverse IPR statistics.

²⁹³ The Swiss letter of request consists out of an inquiry about the legal basis for findings of IPR infringements and which provisions have been infringed most, in which cases administrative law was applied, the average duration and reasons explanation why right holders lost their case. It asked to provide clarification on remedies and provisional measures available to right holders and the minimal and maximum amount of fines and imprisonment imposed under Chinese enforcement and refer to examples of the reported cases. The Swiss letter requested an organizational chart of the Chinese enforcement authorities and clarifications in terms of stages of appeal, and the relationship between civil, administrative and criminal procedures and by what means transparency is ensured in Chinese enforcement procedures. Gerhardsen, see note 291.

²⁹⁴ Article 63 (3) TRIPs: (...) A member, having reason to believe that a specific judicial decision or administrative ruling or bilateral agreement in the area of intellectual property rights affect its rights under this agreement, may also request in writing to be given access to or be informed in sufficient detail of such specific judicial decisions or administrative rulings or bilateral agreements.

²⁹⁵ Including in a white paper issued by the State Council: ‘Progress in China’s Protection of Intellectual Property Rights’, April 25, 2005, available at: http://english.gov.cn/official/2005-07/28/content_18131.htm.

²⁹⁶ The US response on January 20, 2006 was that China itself has identified the cases in question as being related to the question of its compliance with TRIPs. In successive TRIPs Council reviews, China cited these same cases to other WTO members in response to questions regarding China’s implementation of enforcement provisions of the TRIPs. China further confirmed the relevance of this body of cases just prior to US request, when it distributed a white paper referencing them to the TRIPs Council, strongly urging members who had criticised China’s IPR enforcement to study the white paper for evidence of China’s enforcement efforts. For “a specific case”, China, not the United States, identified this set of specific cases to the TRIPs Council. Gerhardsen, see note 291.

²⁹⁷ USTR, see note 168, pg 24.

China added that some data were just not available²⁹⁸. The US continues to look forward to a full response of the October 25, 2005 63 (3) TRIPs request.

8.2.3 Lack of an independent judiciary

It can be argued that an independent judiciary is another precondition for the rule of law. The rule of law requires that courts should be able to protect citizens against abuses from the state. That is why the judicial system needs to be as independent as possible from the state. The Constitution²⁹⁹ promulgates that the people's courts exercise their judicial power independently, without any interference by any administrative organ, public organization or individual. However, in contradiction to this principle, article 128 Constitution³⁰⁰, states that courts report to the corresponding level of the people's congresses that created them. At the highest level, 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 interpretation³⁰¹ or invalidating³⁰² of laws by the Supreme People's Court.

Then, the People's Procuratorate Bureau also exercises supervision over the judiciary, leading to the situation where procurators are subject to the authority of the court when

²⁹⁸ China left unanswered some requests for data, which it said were not available. ICTSD, 'Fifth annual Transitional Review Mechanism', November 1, 2006, available at: <http://www.ictsd.org/weekly/06-11-01/story4.htm>.

²⁹⁹ Article 126 Constitution: The people's courts exercise judicial power independently, in accordance with the provisions of the law, and are not subject to interference by any administrative organ, public organization or individual.

³⁰⁰ Article 128 Constitution: The Supreme People's Court is responsible to the National People's Congress and its Standing Committee. Local people's courts at various levels are responsible to the organs of the state power which created them.

³⁰¹ Article 43 Legislation Law: The State Council, the Central Military Committee, the Supreme People's Court, the Supreme People's Procuratorate, the various special committees of the Standing Committee and the Standing Committee of the People's Congress of various provinces, autonomous regions and municipality directly under the central government may make a request for legislative interpretation to the Standing Committee of National People's Congress.

³⁰² Article 90 Legislation Law: Where the State Council, the Central Military Committee, the Supreme People's Court, the Supreme People's Procuratorate, the various special committees of the Standing Committee and the Standing Committee of the People's Congress of various provinces, autonomous regions and municipalities directly under the central government deems that an administrative regulation, local decree, autonomous decree or special decree contravenes the Constitution or a national law, it may make a written request to the Standing Committee of National People's Congress for review, and the office of operation of the Standing Committee shall distribute such request to the relevant special committees for review and comments. (..).

they appear before the court as a prosecutor and yet they have the authority to challenge the “final” decisions of the court³⁰³. The courts are de facto used as administrative tools to implement policy³⁰⁴. The final verdicts of courts can be issued as guidelines for the administrative authorities to use when handling complex infringement cases³⁰⁵.

A way to find power structures in a society, is to follow the financial dependencies. The National People’s Congress controls the funding and staffing of the Supreme People’s Court³⁰⁶. Similar structures exist at lower levels: where local Party Organization Department and people’s congresses control key appointments and funding for courts. The consequence is that in order to become selected as a judge, a desired political profile can be of more importance than legal qualifications³⁰⁷. Education can improve the professionalism of judges and to make them aware of their special role in society.

8.2.4 Non-uniform application of laws

China is now trying to fight against the non-uniform and partial application of law locally. Fons Tuinstra argues that China’s reason to participate in the WTO is to use this treaty as a vehicle to regain the power it gave away during decentralisation efforts³⁰⁸. The drafting style of China’s laws, regulations, and even the judicial interpretations that have to explain them, are sometimes in general wording, provoking different outcomes in interpretation, within and between provinces^{309 310}. About the inherent discretionary character of the criminal thresholds, see Attachment Chapter 7, under Discretion,

³⁰³ Peerenboom, see note 264, pg 280.

³⁰⁴ “Attempts are under way to put greater order into the system, and the formulation of legislation is being transformed from the passive translation of policy into a specialized professional activity,” Lubman, see note 131.

³⁰⁵ Bai, see note 112, pg 58.

³⁰⁶ Peerenboom, see note 264, pg 268.

³⁰⁷ This is changing, at least in Shanghai, as more functionaries at key positions are non-party members; Li Xinran, ‘15 local agencies led by non-Party members’, Shanghai Daily, March 8, 2007, available at: http://www.shanghaidaily.com/sp/article/2007/200703/20070308/article_308325.htm.

³⁰⁸ Fons Tuinstra, ‘Beijing’s Secret WTO Agenda’, 2003, available at: http://www.cbiz.cn/column/download/wto_agenda.pdf.

³⁰⁹ The US Trade Representative notes that it “continues to hear complaints of a lack of consistent, uniform and fair enforcement of China’s IPR laws and regulations in the civil courts,” USTR, see note 164, pg 21.

³¹⁰ “In a developing economy like China, where tax rules are constantly changing, the loopholes are plenty and enforcement and interpretation vary from area to area,” John L. Chan, ‘China Streetsmart, What you must know to be effective and profitable in China’, 2003, pg 103.

consistency and predictability. The Legislative Affairs Office, which has local branches in every province and major city, will monitor proposed measures for consistency with higher-level norms. Whether it will be effective remains to be seen, let alone that it could align local deviations from WTO standards³¹¹. However, upon accession to WTO China committed itself³¹² to establish an internal review mechanism to investigate and address cases of non-uniform application of laws based on information provided by companies and individuals³¹³. This mechanism is now overseen by MOFCOM's Department of WTO Affairs. To prevent is better than to heal, and a concentrated appeals court would have a unifying effect³¹⁴.

8.2.5 Local Protectionism

When deciding in IP infringement disputes, some local courts are inclined to rule in favour of local companies even though they infringe IP³¹⁵. 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 government³¹⁶. One should realise 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 possibly to social-unrest. But it is even possible that the infringing company is a state company, with direct connections to the local government. This is why a right holder should consider bringing a case relying on a sale of an infringing product or place where

³¹¹ Lubman, see note 131.

³¹² Art. 2 (A) 4 Protocol of Accession, see note 192, pg 2.

³¹³ USTR, see note 277, pg 99.

³¹⁴ "A concentrated appeals court with an independent judge is very necessary in China, and so is the independence of the judge. The IP Tribunal of the Supreme Court are examining the pros and cons of this", Tina Tai, 'Mapping the Future of IP in China' Finnegan Henderson and Managing Intellectual Property, August 2006, available at: <http://www.managingip.com/?Page=10&PUBID=34&ISS=22412&SID=648532&TYPE=3>.

³¹⁵ This is in conflict with China's commitment at all levels of government, to apply, implement and administer its laws, regulations and other measures in a uniform and impartial manner throughout China, see note 192.

³¹⁶ Not only local judges are prone to local protectionism, but every local enforcement official: "We should recognize these officials so they become a hero rather than a public enemy. We also need to figure out a long-term recognition approach. I was told by a police officer that he was asked: are you going to give up all your personal relationships in this county just because of this case? He had to suffer a lot." Chang, see note 208.

the contract is performed in a place such as Beijing³¹⁷, Shanghai, Guangzhou or Shenzhen³¹⁸ instead of at the location of the infringer³¹⁹, see Attachment Chapter 2, under Forum shopping. Another problem is that local courts oftentimes are not willing to enforce judgments rendered by courts elsewhere in China against local defendants. To counter these problems Peter Yu advocates the reinvestment of penalty awards in the local community to create local stakeholders³²⁰.

8.2.6 Corruption and lack of education

The Transparency International Corruption Perceptions Index³²¹ has ranked China in 78th position with a score of 3.2, where 10 is highly clean. This perception by business people and country analysts might be even too optimistic, if one compares it to the statement of the National People's Congress³²². A superlative of the manifestation of corruption is an unauthorised Disney theme park near Beijing, which is owned by the state, using the slogan "Disney is too far", discovered by Japanese media in April 2007³²³.

³¹⁷ From 2002 to 2006, Beijing No. 1 Intermediate People's Court ruled in favour of overseas parties in 60 percent of the 670 IPR cases. Xie Chuanjiao, 'Int'l laws applied in local IPR cases', China Daily, January 19, 2007, available at: http://www.chinadaily.com.cn/china/2007-01/19/content_787205.htm.

³¹⁸ "Nevertheless, it is not uncommon for officials even in major cities to refuse to take action alleging that there is insufficient evidence to pursue the case; alternatively, having taken action and seized goods, they are later returned to the infringers," Wheare, see note 80.

³¹⁹ "As a litigator, we always suggest not taking action at the location of the potential infringer – as in most cases you lose. Local governments put pressure on the judges, attributed to local economic roles and the local employment rate. Judges are paid by local government so they are not so independent. At least the salary of the judge should be paid by the central government if you want a fair decision." Tai, see note 314.

³²⁰ Yu argues that this reinvestment is necessary, because it removes the concern of judges that foreign right holders drain the local community of its limited resources. Besides, since many infringements involve a state-owned or collectively-owned enterprise, reinvestment in the local community prevents that the interests of the state are hampered. Peter K. Yu, 'From Pirates to Partners (Episode II): Protecting Intellectual Property in Post-WTO China', American University Law Review, Vol. 55, 2006, Part III Thinking Outside the IP Box, E. Reinvestment, pg 58 and 61, available at: <http://ssrn.com/abstract=578585>.

³²¹ The Transparency International Corruption Perceptions Index relates to perceptions of the degree of corruption as seen by business people and country analysts, available at: <http://www1.transparency.org/cpi/2005/cpi2005.sources.en.html>.

³²² The National People's Congress has said that the corruption is not declining in China.

"[J]udges are accepting money, gifts and invitations from parties to lawsuits who seek to cultivate personal relationships with judges. In addition, Chinese legal scholars have also stated that courts accept cases they should not handle and refuse to accept or delay the hearing of cases in order to assist local parties. Other practices include improper use of coercive measures to obtain control of property and willful misinterpretation of the law," Lubman, see note 131.

³²³ This park, Beijing Shijingshan's Amusement Park, is not only invested by Disney cartoon figures, but by Japanese animation figures as well. All without authorisation of the right holders. IP Dragon, "Disney Is

One should notice that corruption manifests itself from the lower echelons of power all the way to the apex³²⁴. One solution to this problem regarding the judiciary, could be to raise judges' salaries considerably to make them less prone to corruption. In general an answer to fight moral perversity might be education and a culture of integrity. This makes it so ironic that Harvard professor Alford's book entitled 'To Steal a Book is an Elegant Offence: Intellectual Property Law in Chinese Civilization' was reproduced without authorisation by, of all people, an IPR law professor at a renowned Chinese university³²⁵.

8.2.7 Lack of expertise in and respect for IPR

Long Yongtu, chief negotiator for China's entry into WTO was worried that China lacked expertise and professionals qualified on international rules. To avoid that China was "a blind man riding a blind horse" within the WTO³²⁶ China started an extensive campaign in the first year of its membership. Central and local government officials and state-owned enterprise managers were taught about both the requirements and benefits of WTO membership³²⁷. "The exchange of expertise of IPR in general and TRIPs in particular is conducive for building respect for IPR in China. Educational projects by SIPO and industry associations are set up and some local governments provide monetary incentives to develop intellectual property projects in science parks and universities to raise awareness and appreciation for intellectual property value. An example of international exchange of expertise is the University of California, Berkeley that invited

Too Far" Let's Start An Unauthorised State-owned Disney Amusement Park, May 3, 2007, available at: <http://ipdragon.blogspot.com/2007/05/disney-is-too-far-lets-start.html>.

³²⁴ For example the head of the State Food and Drug Administration is suspected of accepting bribes from Chinese pharmaceutical companies in exchange for approving substandard or counterfeit drug production licenses. David Barboza, 'China Detains Ex-Official in Inquiry on Fake Drugs', New York Times, February 9, 2007, available at: <http://www.nytimes.com/2007/02/10/business/worldbusiness/10drug.html>.

³²⁵ "Significant parts of my book on the subject – entitled To Steal a Book is an Elegant Offence: Intellectual Property Law in Chinese Civilization – have recently been reproduced commercially without authorization, attribution or compensation- by no less than a professor of intellectual property at one of Beijing's leading universities!", Alford, see note 102, pg 5.

³²⁶ Vivien Pik-Kwan Chan, 'Chinese Economists Fear Favored West May Threaten Sovereignty', South China Morning Post, November 13, 2001.

³²⁷ USTR, '2002 Report to Congress on China's WTO Compliance', December 11, 2002.

20 judges, policy leaders and business executives from China to attend trainings³²⁸ about innovation and developing IPR in China in 2006³²⁹.

8.2.7.1 Judges have insufficient expertise

Although the situation has improved considerably³³⁰, according to all speakers during the IPR in China Conference in London, it is still far from perfect. The 2006 Special 301 Report states: "Litigants, according to the US Trade Representative, have found that most judges lack necessary technical training, court rules regarding evidence, expert witnesses, and protection of confidential information are vague or ineffective³³¹." This is especially a problem in case of patent law, which often are complex cases.

8.2.8 Market access restrictions

Market access restrictions are a contributory factor to intellectual property infringements³³². The salient example is the limited number of movies that are annually allowed into the Chinese market³³³. Reasons for this restrictive policy is to protect the fledgling Chinese movie industry, or to protect the security of the state: some foreign movies are banned outright^{334 335}, while the arrival of others is delayed by lengthy

³²⁸ Berkeley China IPR Leadership Pilot Program, from October 9 through 27, 2006, Center for Research on Chinese and American Cooperation, University of California, Berkeley, see at: http://crc.berkeley.edu/ipr_2006.

³²⁹ Ronna Kelly, 'Delegates from China to visit UC Berkeley for new innovation and intellectual property rights program', Haas School of Business, UC Berkeley, October 10, 2006, available at: http://www.berkeley.edu/news/media/releases/2006/10/10_ip.shtml.

³³⁰ Before, only ten to fifteen percent of the judges had completed a four year legal education. Instead many judges served in the army, and were selected because of their politically trustworthiness, according to Lubman, see note 131.

³³¹ USTR, see note 168, pg 21.

³³² "We cannot divorce the concept of market access from the question of piracy. In no case is that more apparent... [than] China", Bloomberg news agency quoted Pat Schroeder, president of the Association of American Publishers, as saying, InTheNews.co.uk, 'Chinese copyright piracy faces US threat', February 16, 2007, available at: [http://www.inthenews.co.uk/money/news/finance/chinese-copyright-piracy-faces-us-threat-\\$1053067.htm](http://www.inthenews.co.uk/money/news/finance/chinese-copyright-piracy-faces-us-threat-$1053067.htm).

³³³ The number of foreign movies that can be shown in Chinese cinemas is limited to 20 movies per year. One can argue that this stimulated pirated DVDs to the point that only 7 per cent of the DVD's on the market are legitimate. Reuters, 'Market access key to piracy fight', The Age, December 8, 2006, available at: <http://www.theage.com.au/news/World/Market-access-key-to-piracy-fight/2006/12/08/1165081128349.html#>.

³³⁴ The criteria for censorship are: the state advocates to create excellent films that have both ideological content and artistic quality". They should "get close to reality, life and the masses"; be of "benefit to the

copyright reviews of Chinese authorities, and sometimes they are subject to blackout viewing periods during national holidays³³⁶. In October 2004 the State Administration of Radio, Film and Television (SARFT) and MOFCOM issued the Provisional Rules on the Access Requirement for Film, including production, distribution, screening and imports by domestic firms, and film production and screenings involving foreign firms. All firms engaged in these businesses are subject to SARFT licensing. At the moment, there's only one state-run importer who basically owns a distribution duopoly^{337 338}.

One can argue that the legitimate foreign and domestic movies cannot compete with pirated movies³³⁹. Even the Chinese Academy of Social Sciences³⁴⁰ has concluded that state censorship of film imports helps encourage piracy because distributors want to give customers more choices than what's officially available.

China has agreed to regularly instruct enforcement authorities throughout the country that copies of select films which are still in censorship, and not yet ready for distribution are deemed pirated and subject to enhanced enforcement. Notwithstanding these instructions, a Memorandum of Understanding that was reached July 2005, about the protection of films from piracy before, during and immediately after their theatrical release in China³⁴¹,

minors' healthy growth"; and "try to transform backward culture and combat firmly the decadent culture". And maybe most important no politics can be involved in entertainment, Mary-Anne Toy, 'Piracy still pays despite party line on what's fit for Chinese eyes', Sidney Morning Herald, February 10, 2007, available at: <http://www.smh.com.au/news/world/piracy-still-pays-despite-party-line-on-whats-fit-for-chinese-eyes/2007/02/09/1170524304056.html>.

³³⁵ Five movies have been banned by censors, available at:

http://en.wikipedia.org/wiki/List_of_banned_movies#China_.28People.27s_Republic_of.29.

³³⁶ USTR, Trade summary, 2005, pg 112, available at:

http://www.ustr.gov/assets/Document_Library/Reports_Publications/2005/2005_NTE_Report/asset_upload_file469_7460.pdf.

³³⁷ Film Distribution Company and Huaxia, USTR, see note 336, pg 113.

³³⁸ Some progress was made in 2004 when MOFCOM approved a US-invested film distribution joint venture and took steps to shorten the time required to bring films to market.

USTR, see note 336, pg 113.

³³⁹ Legitimate foreign and domestic movies cannot compete with pirated movies "who endure no censorship, pay no taxes, and bear minimal production costs", Ranjard and Misonne, see note 109, pg 13.

³⁴⁰ "China's censorship process means that legitimate titles are a subset of all titles produced, i.e. producing pirated titles allows distributors to offer customers much wider choice; with no royalties and taxes to pay, and no quality control requirements to meet, pirated movies provide distributors with significantly higher profits, because sellers of pirated movies are generally unlicensed, the distribution network for pirated movies is far more developed than that for legally licensed movies", Chinese Academy of Social Sciences report, 'Study of the Impact of Movie Piracy on China's Economy', June 2006, available at:

http://www.uschina.org/public/documents/2006/07/cass_piracyimpact_e.pdf.

³⁴¹ Hau, see note 285.

between the Ministry of Culture, SARFT and MPA, only protects 15 Hollywood movies that are released in China³⁴². An interesting question is whether, and if so to what extent non-released movies can contribute to the damages that a plaintiff can claim. In the Sohu versus MPA case, half of the infringed movies were released³⁴³, and this case was further complicated, because people could download from countries where the movie was released.

8.3 China's proclivity for enforcement by mass campaigns

As a communist country the People's Republic of China has never been a stranger to political campaigns. In recent years China is using legal campaigns with colourful names to redirect the masses of IP infringers back on the right path. In August 2004 China launched Operation Spring³⁴⁴, in November 2005 Operation Mountain Hawk³⁴⁵, in January 2006 Operation Mountain Eagle³⁴⁶ that will be carried on³⁴⁷ in 2006 as

³⁴² Chris Israel, 'Testimony before the US-China Economic and Security Review Commission Piracy and Counterfeiting in China', June 7, 2006, pg 5, available at:

http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_06_07wrts/Chris_Israel.pdf.

³⁴³ The Associated Press, 'U.S. film group: Chinese portal Sohu loses copyright suit over movie downloads', December 29, 2006, available at:

http://www.iht.com/articles/ap/2006/12/29/business/AS_TEC_China_Sohu_Movie_Piracy.php.

³⁴⁴ Operation Spring, August 2004, the first U.S.-China joint investigative effort (between the US Immigration and Customs Enforcement and MPS), results shut down of a DVD export ring, arresting six people, including Guthrie and Thrush, two Americans, while seizing more than \$83,000 in cash and more than 200,000 DVDs. Joshua Davis, 'The Decline and Fall of Randolph Hobson Guthrie III', Wired Magazine, available at: <http://www.wired.com/wired/archive/13.10/guthrie.html>.

³⁴⁵ Operation Mountain Hawk, November 2005, the Ministry of Public Security (MPS) launched a one-year campaign aimed at more effectively co-ordinating the efforts of local police to accept, investigate and report on the results of intellectual property enforcement work, Claire Robley and Alison Wong, 'Patent counterfeiting in China - will the new Supreme Court guidelines have a positive effect for patent holders?', Bird & Bird, August 22, 2005, available at:

http://www.twobirds.com/english/publications/articles/Patent_counterfeiting_in_China.cfm?RenderForPrint=1.

³⁴⁶ Operation Mountain Eagle, which started in 2005 and continued in 2006, aims to strike at counterfeit trademarks and pirated copyrights. During operation "Mountain Eagle" of the Ministry of Public Security, the police nationwide cracked more than 1,000 cases involving IPR infringement valued at over 860 million yuan, and detained more than 2,600 suspects, Embassy of the PRC in America, 'China penalizes more IPR crimes', June 28, 2006, available at: <http://www.china-embassy.org/eng/gyzg/t201585.htm>.

³⁴⁷ Chang was positive about the reward system of local officials during Operation Mountain Eagle: "We need to motivate the local officials to track down IP criminals. If they work on an IP case, if they deliver they become a hero. Providing a reward to officials in Operation Mountain Eagle has been well taken and that changes the mindset", Chang, see note 208.

announced in the Action on IPR Protection 2006³⁴⁸. In July, 2006 the Ministry of Public Security began July 15, 2006 a 100-day campaign against piracy³⁴⁹. SIPO announced special actions Sunlight 1, 2 and 3 for the period 2006-2010³⁵⁰. “[F]or carrying out the Provisions on Exhibition IPR Methods, the Ministry of Commerce, the General Administration of Customs, the Industrial and Commercial Administration, Copyright Administration, SIPO, China Trade Promotion Commission and the National IPR Office will jointly sponsor a one-year long special action entitled "Blue-Sky" to regulate exhibition IPR protection. The action focuses on publicity of the copyright, trademark and patent rights and using the success in tackling some serious cases to achieve a big breakthrough and make overall progress in this field”³⁵¹.

8.3.1 Nothin’ but blue skies from now on?

These top-down initiated campaigns, draw attention to the case of intellectual property rights protection and enforcement and may educate the public at large. These temporary crackdowns and new measures, fight symptoms but do not seem to solve the failing fundamentals of enforcement in China. One of the sceptics, Ted Fishman even proposes some ulterior motives for publicised raids³⁵². And last fall there was a discussion in the

³⁴⁸ Law Enforcement Plans II, (I) article 1 (1), ‘Action Plan 2006 on IPR protection’, available at: http://english.people.com.cn/200604/30/eng20060430_262334.html.

³⁴⁹ 100-day campaign against piracy started July 15, 2006, was jointly launched by ten ministries and national departments, including the Ministry of Public Security, State Administration of Press and Publication, National Copyright Administration, Ministry of Culture. Xinhua, ‘MPS to severely fight against piracy’, August 22, 2006, available at: http://www.ipr.gov.cn/ipr/en/info/Article.jsp?a_no=12390&col_no=99&dir=200608 and People’s Daily Online, ‘China’s 100-Day Campaign Against Piracy’, date unknown, available at: http://english.people.com.cn/zhuanti/Zhuanti_487.html#.

³⁵⁰ Sunlight 1: Action held in the first quarter of 2006 for a purpose of creating a sound market environment; Sunlight 2: Action, in the summer, for the sake of the young generation, to check those legal audio-video shops who are, however, also engaged in wholesaling or selling pirate products; Sunlight 3: Action, planned to start from October to the end of 2006, focusing on the protection of the Chinese movie industry. SIPO, ‘Enforcing IPR Law Enforcement and Protection’, August 22, 2006, available at: http://www.sipo.gov.cn/sipo_English/specialtopic/200608/t20060822_108831.htm.

³⁵¹ SIPO, see note 350.

³⁵² “The purposes behind the publicized raids are always obscure, and the Chinese who read about them are skeptical about taking the raids at face value. Are they the result of turf wars among the government fiefdoms that are themselves knee-deep in counterfeiting? Did the raided factories push the Party’s tolerance of violent and eroticised Western entertainment too far? Did they pirate a movie backed by the Chinese government? Or was that day’s demonstration of will just a show for a foreign trade group coming

Chinese press about whether periodically strictly enforced short campaigns encourage disregard for those laws at other times³⁵³. And by publicly announcing when the campaign begins and when it ends as generally happens, does not really make it more effective either. What is clear that they are no substitute for enforcement from the ground up. The grass roots administrative authorities and PSB are in the best position to investigate and initiate actions. China launched two comprehensive long-term action plans on intellectual property protection, in 1995³⁵⁴ and 2006³⁵⁵, which include some of the abovementioned campaigns, designed as a blueprint for China's continuing efforts in this field. Action Plan 2006 is divided into nine-sub plans³⁵⁶.

8.4 China's Four IPR paradoxes

China's culture is well aware of paradoxes. Taoism illustrates this with the Taijitu symbol, which shows the dual concepts of yin and yang with the primal opposing but complementary principles to be found in all non-static procedures. This could be said for innovation and IPR, care for IPR protection in 'unimportant' industries, no protection and the anticipation of protection, and protection and infringement.

8.4.1 Innovation without IPR?

As of 2000 the Chinese leadership has made it clear that its ambition³⁵⁷ is to develop China's economy from the world's factory to the laboratory of the world³⁵⁸ or put

to China to – yet again – express its grave concerns over intellectual-property theft”, Ted C. Fishman, ‘China Inc.: How the Rise of the Next Superpower Challenges America and the World’, 2005, pg 236.

³⁵³ Joel Martinsen, ‘Please go elsewhere for prostitution’, Danwei, January 2007, available at : http://www.danwei.org/ip_and_law/illegal_acts_strictly_prohibit.php.

³⁵⁴ ‘Action Plan on intellectual property protection 1995’, February 26, 1995, available at: <http://www.cptech.org/ip/health/c/agreements/china-1995-ip.html>.

³⁵⁵ ‘Action Plan on intellectual property protection 2006’, April 30, 2006, available at: http://english.people.com.cn/200604/30/eng20060430_262334.html.

³⁵⁶ These nine subplans of the Action Plan 2006 are: dealing with legislation; law enforcement; establishment of a system and infrastructure; publicity; training and education; international co-operation; business self-discipline; streamlining and increasing efficiency of government services to IP right holders; and research projects related to IP law and areas of current interest.

³⁵⁷ In 2000, the 5th Plenary Sessions of the 16th Central Committee of the Party set up the 11th Five Year Plan. The core to this plan is publicly promoting “independent innovation,” “self-owned IPR,” and “core technology. The aim of the Ministry of Science and Technology is to give prominence to indigenous innovation. Jung, see note 17, pg 8.

differently: the transition from imitation to creation³⁵⁹. To get to this phase China might perceive intellectual property as an obstacle to technology transfer it actively seeks from overseas companies³⁶⁰. A study produced for the European Commission alleges that China abuses various strategies to obtain access to technical secrets³⁶¹ and that the Chinese authorities discourage Chinese enterprises from entering into negotiations on patent licensing agreements to pay royalty to patent owners³⁶². Innovation is needed when China wants to maintain the high growth rates. To maintain these growth rates substantial investments in research and development are needed. This makes intellectual property rights more important, because without these rights investments cannot be secured³⁶³.

On the other hand, China's current leadership is fully aware that its very existence³⁶⁴ depends upon social stability, which in turn depends on economic growth³⁶⁵. Beijing has

³⁵⁸ "China will remain a place for low-cost manufacturing, [but is so populous] that [it] can do lots of things at once. [It] can keep doing the low-tech work and at the same time develop more high-tech activities. The Economist, 'Thinking for themselves', October 20, 2005, available at:

http://www.economist.com/surveys/displaystory.cfm?story_id=E1_VDTVTVGV.

³⁵⁹ Some Chinese firms are going from an imitation to a creation paradigm, as of 2001. Xie Wei and Steven White, 'From Imitation to Creation? The Critical Yet Uncertain Paradigm Shift for Chinese Firms', July 2004, available at: <http://ged.insead.edu/fichiersti/inseadwp2004/2004-07.pdf>.

³⁶⁰ "China wants technology transfer from overseas companies. Overseas companies want to take advantage of low labour cost, an abundance of young engineers, and favourable investment policies. A road block to smooth technology transfer is IP protection," James M. Wu, 'China: Pushing Forward With IP Protection', September 21, 2006, available at: <http://www.mondaq.com/article.asp?articleid=42902&searchresults=1>.

³⁶¹ "The various strategies used by China to obtain access to technical secrets, either by putting the disclosure of technical secrets as a condition for granting an authorisation [to build a factory, to market a product, etc.] or by imposing a Chinese partner in a JV [joint venture] and then closing access to new projects, once the technology has been transferred." Ranjard and Misonne, see note 109, pg 18.

³⁶² Ranjard en Misonne wrote about the outcome of the Intellectual Property Rights Position Paper of the European Union Chamber of Commerce in China, September 9, 2005: "Evidence suggests that Chinese authorities [have discouraged Chinese enterprises from entering into negotiations] on patent licensing agreements and pay royalty to patent owners. [This gives] Chinese companies an unfair advantage, as they are not contributing their fair share to the costs of technological progress." Ranjard and Misonne, see note 109, pg 16.

³⁶³ Lesser did empirical research on the relationship between IPR on the one hand and foreign direct investments (FDI) and imports on the other. The outcome is that the relationship is both positive and significant: IPR outweighs the higher price typically associated with protected products and technologies. The results in general combined with the survey results support the view that investors are very aware of IPR systems in individual countries and act carefully within that context. Lesser recommends countries wishing to attract investors to strengthen their IPR systems. W. Lesser, 'The Effects of TRIPs-mandated Intellectual Property Rights on Economic Activities in Developing Countries', Cornell University, 2001, pp. 20-21, available at: http://www.wipo.int/about-ip/en/studies/pdf/ssa_lesser_trips.pdf.

³⁶⁴ Arthur Kroeber, 'The underestimated party state', Financial Times via A Glimpse of the World, March 5, 2007, available at: http://www.howardfrench.com/archives/2007/03/05/the_underestimated_partystate.

acknowledged that the number of mass incidents, as Beijing is calling these mass protests and riots has exploded³⁶⁶. In 2004 it was estimated that three to five million people work in the counterfeit industry in China³⁶⁷. Massive unemployment among this group would not be conducive to social stability. Therefore, as Esler³⁶⁸ asserts, the emphasis the leadership places upon the protection and enforcement of intellectual property will be proportionate to the extent which this is deemed likely to stimulate the economic growth. That is why China's Eleventh Five-Year Plan and premier Wen Jiabao's Government Work Report showed the current administration holding to its policy course of promoting "sustainable economic development" while creating "a harmonious society"³⁶⁹.

8.4.2 China cares about IPR protection in sectors it does not care about

Until domestic interest to protect intellectual property is sufficient, the obligation to enforce intellectual property rights is of secondary importance to the prevention of social strife. In the meantime, the Chinese authorities may be more willing and able to protect and enforce trademarks of luxury goods, since China has not any substantial interests in this sector, yet³⁷⁰. In contrast to this is for example the car industry, which is seen by

³⁶⁵ According to the Chinese National Bureau of Statistics, China's GDP has been growing at an approximate annual rate of 9.5 percent for the past 25 years, and it should continue to grow approximately 8 percent annually for the next 15 years, National Bureau of Statistics, China Statistical Year book 2004, National Bureau of Statistics plan report. Of course growth rates differ across industries, and within industries some sectors expand more quickly than others.

³⁶⁶ The number of 'mass incidents', which are protests and riots, because of wage disputes, social welfare problems, restructuring of state-owned enterprises, and evictions, "rose to 74,000 in 2004 from about 10,000 in 1994, with the number of participants rising from 730,000 to 3.8 million. Police dealt with 17,900 mass incidents in the first nine months of the year, down 22.1 per cent on the same period last year," South China Morning Post, 'Unrest is challenging party rule, Xinhua says in rare appraisal', Asia Media UCLA, December 9, 2006, available at: <http://www.asiamedia.ucla.edu/article.asp?parentid=59370>. Note that it is hard to estimate the number of protests in China, because of tightened restrictions on "cross-territorial" reporting by the domestic media.

³⁶⁷ Jamie Miyazaki, 'Faking it Gucci style', February 6, 2004, available at: http://atimes01.atimes.com/atimes/Global_Economy/FB06Dj01.html.

³⁶⁸ Esler, see note 24.

³⁶⁹ "These are code words for keeping GDP growth near its current high rate while trying to relieve the severe social dislocations that growth and the breakdown of collective institutions has caused over the past two decades," Wilmer Hale, 'State of China's Union', March 2006, pg 1, available at: http://www.wilmerhale.com/files/Publication/7639c3d8-6346-4ccf-8955-082b17b578c9/Presentation/PublicationAttachment/813b5ce0-a622-4e40-9980-10da3edde349/China_Briefing_2006_03.pdf.

³⁷⁰ Esler, see note 24.

some as the pillar industry of China's economy³⁷¹. The incentives for China to enforce IPR against its nascent capital intensive car industry which is "borrowing" designs, manufacturing, parts, brand names and logo's of cars are not high, asserts Justin Berkowitz³⁷².

8.4.3 No protection, anticipation of protection

Although many Chinese industries have already the capability to manufacture sophisticated mechanical components for automobiles, airplanes and advanced electronic devices³⁷³, the majority of Chinese companies seem to overlook^{374 375} the value of IP protection. If the history of developmental stages of other countries gives any clue, one can assume that China's economy will evolve through phases of intellectual property infringement, followed by awareness and respect of intellectual property rights³⁷⁶. So if China can reach this phase, without too much social strife, the problems with IP

³⁷¹ "The car industry has become the pillar industry for China's economy," said Zhang Xiaoyu, vice-president of China Machinery Industry Federation. "We expect car output to increase to 9 million this year and car exports will continue to rise," he added. Jin Jing, 'Ambitious road ahead of country's car industry', China Daily, April 23, 2007, available at: http://www.chinadaily.com.cn/bizchina/2007-04/23/content_857520.htm. China produced 7.3 million cars last year, surpassing Germany to become the world's third largest car producer. And sales in 2006 reached 7.2 million, turning China into the world's second largest market for cars.

³⁷² Justin Berkowitz, 'China's Automotive Market: What's Mine is Mine, What's Yours is Mine', The Truth About Cars, March 8, 2007, available at: <http://www.thetruthaboutcars.com/?p=3280>.

³⁷³ "In the process of moving from low- and median-tech to high-tech products, China has created some inventive ideas in the manufacturing sector. For example, China has the capability to manufacture sophisticated mechanical components for automobiles and airplanes and advanced electronic components for computer and gaming products. However, the majority of the Chinese companies seem to overlook the value of protections and still believe it is not worthwhile to spend their scarce resources on IP protection," Wu see note 360.

³⁷⁴ For example, in 2005 there were only 93,485 domestic applications for invention patents for the whole of China, 'Applications for Three Kinds of Patents Received from Home and Abroad, 1985-2005', SIPO, available at: http://www.sipo.gov.cn/sipo_English/statistics/200607/t20060725_104689.htm. Of these applications, only 20,705 were granted, SIPO, 'Three Kinds of Patent Granted for Home and Abroad, 1985-2005', 2006, available at: http://www.sipo.gov.cn/sipo_English/statistics/200607/t20060725_104687.htm.

³⁷⁵ "Chinese companies collectively filed approximately 2,000 US patent applications in 2004, which is only 3 percent of the applications filed by Japanese companies, but it is an approximately 80 percent increase over the previous year," USTR, 'Performance and Accountability Report for Fiscal Year 2005', 2006.

³⁷⁶ Blaxill et al., see note 261.

enforcement in China will evaporate in the end³⁷⁷. Companies in foreign countries seem to anticipate this development³⁷⁸ and might expect a sufficient level of intellectual property protection when their pending applications are granted³⁷⁹.

8.4.4 Protection that leads to infringement

In 2005 Kegang You and Seiichi Katayama did an empirical study on Japanese subsidiaries in China who registered their patents and trademarks³⁸⁰. They found out, by obtaining information from 95 questionnaires of Japanese subsidiaries on which they performed statistical computations, that there is no evidence in the perception of these Japanese subsidiaries that the patent and trademark registration in China has a protective effect³⁸¹. A fortiori, You and Katayama found a positive correlation between patent and trademark-registration on the one hand and imitation on the other. This suggests that imitators utilize open information about patents. And that a registered trademark is considered as a signal for profitability, which increases the risk of being imitated. Then again, without a registering intellectual properties, it is near impossible to enforce those intellectual property rights at all.

A survey initiated by the Austria Wirtschaftsservice (AWS), which is the federal promotional bank of the Republic of Austria, found out that two-thirds of Austrian small

³⁷⁷ “Our real challenge is not resolving IP piracy in China’ the real battle is the day when American patent owners will have to compete vigorously against Chinese inventions for technology adoption”, Jung, see note 17, pg 14.

³⁷⁸ 40 percent of 405 surveyed European executives see China as the chief geographical source of risk regarding IP. However, many executives are optimistic that China’s IP regime will improve in the short to medium term, as Chinese companies develop more valuable IP on their own. Economist Intelligence Unit, ‘The Value of Knowledge, European firms and the intellectual property challenge’, January 2007, pg 10, available at: http://graphics.eiu.com/files/ad_pdfs/eiu_EuropeIPR_wp.pdf.

³⁷⁹ Japan is the foreign that filed the most Chinese patent applications in China, and the US is ranked third after the European Union, according to statistics of SIPO in 2006.

³⁸⁰ Kegang You and Seiichi Katayama, ‘Intellectual Property Rights Protection and Imitation: an Empirical Examination of Japanese FDI in China’, Pacific Economic Review, Vol. 10, No. 4, December, 2005, pp. 591-604.

³⁸¹ You and Katayama’s empirical study supports the suspicions aired by Ranjard and Misonne. Unlike other patent offices, such as EPO, USPTO or JPO, SIPO’s registration system is not accessible for other patent offices. This way a patent may be refused by SIPO on account of an identical or similar Chinese patent. The lack of transparency makes it impossible to check whether there was a possible leakage of information following the filing of a patent by non-Chinese companies to Chinese companies. Ranjard and Misonne, see note 109, pg 11.

and medium sized enterprises (SME) were very sceptical³⁸² about the possibility to protect and enforce IP in China and other emerging markets. Hence, SMEs hardly applied for patents or trademarks in China³⁸³. In January 2007, the AWS started an approach to promote Austrian SMEs to patent their technological innovations in China and other emerging markets which is unique in the EU. It is called the Innovation Protection Programme³⁸⁴ (IPP): AWS pays back up to fifty percent of patent applications and IP enforcement actions in case of infringements³⁸⁵. Besides AWS experts give service to help avoid and monitor IP infringements.

³⁸² The Austrian media gave much attention for example to the infringements of Doppelmayr's IPR, Austria's aerial lift manufacturer. Die Presse, 'Raubkopien: "Die Chinesen sind Meister im Kopieren"', July 24, 2006, available in German at: <http://www.diepresse.at/home/wirtschaft/economist/75835/index.do>.

³⁸³ In 2006, only 309 Austrian companies (including small and medium enterprises) applied for a patent in China. This is relatively low compared to similar countries applying for patents in China.

Emma Barraclough and Peter Ollier, 'China's Numbers Game', Managing Intellectual Property, April, 2007, available at:

[http://www.managingip.com/Default.asp?Page=17&PUBID=199&ISS=23733&SID=683122&SM=.](http://www.managingip.com/Default.asp?Page=17&PUBID=199&ISS=23733&SID=683122&SM=)

³⁸⁴ The Innovation Protection Programme is called in Innovationsschutzprogramm in German, see AWS.

'Innovationsschutzprogramm' in German at <http://www.awsg.at/portal/index.php?n=686>. AWS, 'Innovation Protection Programme IPP, Brief information for applicants as of January 1, 2007, first edition', available at:

<http://www.awsg.at/portal/media/2206.pdf?PHPSESSID=457e545cd8e35e6efedec2181a0541b8>.

³⁸⁵ In the first half year, there were 20 applications for the IPP in relation to patent applications in China and 11 applications for the IPP in relation to trademark applications in China. So far, the amount of money that will be channelled back to Austrian SMEs who are registering their patents and trademark rights in China is approximately 92.000 euro. There is already one SME whose IPRs are allegedly infringed and is going to litigate with the support (financially and expertise-wise) of the AWS. MMag Martin Mayr, sinologist and economist at AWS' intellectual property management, in a phone conversation, July 4, 2007.

Chapter 9 Conclusion of Part II

Part II uses a holistic approach to explore whether China's IP enforcement system is compliant to the more general provisions of articles 41, 46 and 61 TRIPs. However, the wording of these TRIPs provisions and the clauses of articles 7 and 8 TRIPs have intrinsic weaknesses where unwilling WTO members can hide behind. Article 41 (5) TRIPs could even be characterised as the Achilles heel of TRIPs. One could argue that China's implementations of articles 41 (2), (3) and (4) and 46 TRIPs are non-compliant. Contrary to popular belief, China's implementation of article 61 TRIPs seems to be compliant, because of the ambition level manifested in the wording of this provision. There is no indication that numerical thresholds are prohibited by TRIPs. The judicial interpretation's calculation methods undermine the effectiveness of a deterrent, but does not exclude the possibility that the result is "sufficient to provide a deterrent", pursuant to article 61 TRIPs. The IPR enforcement in China is complicated to a great extent by many extra-judicial factors, one could call China's IPR enforcement paradoxical and the effectiveness of mass campaigns could be doubted.

Part III TRIPs Compliance and WTO case

Part II points out that China's IPR system could be non-compliant with TRIPs. So until there is no formal determination of compliance/non-compliance with TRIPs, what should WTO members do who suffer because of IPR infringements substantial losses? Part III answers this question by exploring both situations: doing nothing and bringing a WTO case against China. Part III will finish with recommendations, that will present a third possibility.

Chapter 10 WTO case against China

Chapter 10.1 explores what would happen to China's IPR enforcement level if no WTO member will bring a WTO case against China. Chapter 10.2 will investigate whether it will be wise to bring a WTO case against China. Chapter 10.3 gives the conclusion and presents recommendations to improve the enforcement of IP in China.

10.1 Not bringing a WTO case against China

The IP enforcement challenges China faces are indeed of a Herculean scale. However, it is expected that when China transforms from a manufacturing into an innovation powerhouse China's business community will foster its IPR. Shenzhen based Netac suing Texas PTY for patent infringement in the United States³⁸⁶ is probably a preview of the things to come³⁸⁷. The IP infringements are evolving as well. A shift from trademark infringements to design right infringements³⁸⁸ signify the recognition of the value of

³⁸⁶ Xinhua Online, 'Netac sues US firm for patent infringement', February 20, 2006, available at: http://news.xinhuanet.com/english/2006-02/20/content_4203734.htm.

³⁸⁷ Kenny Lam, 'China company sues against American company for patent rights?', Asia Product Asia Business News, February 13, 2007, available at: <http://www.asia-product.com/blog/china-company-sues-against-american-company-for-patent-rights>.

³⁸⁸ China is making efforts to change its role as the world's factory to the research and development centre of the world, so it can reap the benefits of home grown intellectual property rights. So brands are promoted which in turn leads to the next level of sophistication: copying the shape without copying the trademark. Justin Davidson quoted by Shahnaz Mahmut, 'Nokia in Chinese phone design row', Managing Intellectual Property, September 2006, available at: <http://www.managingip.com/?Page=10&PUBID=34&ISS=22412&SID=648426&SM=>.

Chinese brands. And the learning curve of infringers has peaked³⁸⁹ so that infringed products are often of better quality than the original, which, from an economical point of view, can justify putting the product behind their own trademark. So, even if China would not be pressured by other WTO members to improve its IP enforcement system, the inherent necessity to secure investments in innovations when China's economic development matures, will do so³⁹⁰.

10.2 Bringing a WTO Case against China

So the problem of China's rampant IP infringements will eventually self destruct when China reaches a certain stage in its economy. It is a bit much to ask from WTO members to sit and wait until this phase will dawn, while their IPRs are being infringed in the meantime. What should they do, bring a WTO case against China? On October 25, 2005 the annual Transitional Review Mechanism³⁹¹ (TRM) of the TRIPs Council took place. China handed out a white paper³⁹² including statistics³⁹³ and added more numbers in a communication³⁹⁴. Notwithstanding the indicative function of these statistics for the Chinese authorities' efforts, based on these numbers, one cannot distil whether the enforcement of IP in China is getting more effective.

³⁸⁹ Faking a whole company as happened with NEC can be considered as the climax of IPR enforcement. Not only NEC products were counterfeited, but the fake NEC company even extended the product range. David Lague, 'Next step in pirating: Faking a company', April 28, 2006, available at: <http://www.iht.com/articles/2006/04/27/business/nec.php>.

³⁹⁰ One can argue this happened with Japan, Taiwan and South Korea.

³⁹¹ Upon accession to the WTO China agreed that the first eight years its commitments will be reviewed during the Transitional Review Mechanism by the TRIPs Council, article 18 (4) Protocol of Accession, see note 192, pg 12.

³⁹² See note 295.

³⁹³ SIPO handled 353,807 applications in 2004, up 14.7 percent from the previous year. Foreign applications accounted for 21.2 percent, up by 30.8 percent on 2003.

³⁹⁴ 51,851 trademark law-breaking cases of various kinds were investigated and dealt with across China in the year 2004. 5,494 out of the total trademark law-breaking case involve a foreign party or factor.

10.2.1 Article 64 TRIPs

The Berne and Paris Conventions lack a binding dispute resolution mechanism. Article 64 TRIPs on the other hand makes it possible to resolve disputes through the mandatory dispute settlement process³⁹⁵ that was already available during GATT in 1994.

The article 63 (3) TRIPs request by the US, Japan and Switzerland, can be seen as overtures to a WTO dispute settlement case, based on article 64 TRIPs. The EU wants to defend its interests by dialogue first, “[b]ut where other efforts have failed, the Commission will use the WTO dispute settlement system to ensure compliance with multilaterally agreed rules and obligations.”³⁹⁶ But if WTO members or trading groups recognized by the WTO are willing to bring an action before the WTO dispute panel against China, for failing to meet its obligation under the agreement, on what articles would they base their case?

10.2.2 Choose your battles wisely³⁹⁷

An eventual formal complaint³⁹⁸ could be based on the articles 41³⁹⁹, 46⁴⁰⁰ and 61 TRIPs⁴⁰¹. The key question is whether it would be wise to do so. Peter Yu gives five

³⁹⁵ The innovation of TRIPs compared to WIPO's conventions (Berne and Paris) is that disputes about enforcement can be dealt with in a binding manner by a panel of the WTO dispute resolution body. In other words WTO's TRIPs is WIPO with teeth, paraphrasing professor P.B. Hugenholtz, Institute for Information Law, University of Amsterdam, 2006.

³⁹⁶ Communication from the Commission to the Council and the European Parliament, ‘EU-China: Closer Partners, Growing Responsibilities’, October 24, 2006, pg 7, available at: http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130875.pdf.

³⁹⁷ The first essential of victory: “He will win who knows when to fight and when not to fight”, Sun Tzu, ‘On the Art of War’, 6th century BC, available at: <http://www.au.af.mil/au/awc/awcgate/artofwar.htm#1>.

³⁹⁸ In September 2006, the United States, the EU and Canada did request that a dispute settlement panel examine their complaint that Chinese tariffs on imported auto parts were discriminatory, the first time a dispute with China had risen to this level in the WTO. James F. Paradise, ‘China’s Intellectual Property Rights Honeymoon’, Asia Media UCLA, November 14, 2006, available at: <http://www.asiamedia.ucla.edu/article.asp?parentid=57634>.

³⁹⁹ Paraphrasing partly article 41 TRIPs: Members shall ensure that enforcement procedures are available so as to permit effective action against infringement.

⁴⁰⁰ Paraphrasing partly article 44 TRIPs: In order to create an effective deterrent to infringement, the judicial authorities shall have the authority to order that infringing goods, without compensation, be disposed of outside the channels of commerce.

⁴⁰¹ Partial article 61 TRIPs: Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity.

reasons why the US⁴⁰² should not file a formal complaint based on the abovementioned articles. First, there is no clear definition for effective enforcement (see Chapter 6.2.1 about 41(1) TRIPs). What Yu writes about effective enforcement can also be said about the terms effective deterrent (see Chapter 6.2.2 about article 46 TRIPs) and deterrent (see Chapter 7.2 about article 61 TRIPs). The latter provision is mentioned a lot by industry trade groups, that encourage WTO members to base a case against China alleging its criminal remedies are insufficient to provide a deterrent, caused by alleged high thresholds. If it actually comes to a WTO dispute resolution settlement case, based on article 61 TRIPs, a way for the Dispute Resolution Body panel to measure the degree of sufficiency of deterrence could be to compare the thresholds of other WTO countries, preferably in the same developmental stage⁴⁰³ and determine whether China's thresholds are within a certain reasonable range. Second, a complainant country needs to have sufficient evidence. The paradox is that although US companies and trade groups urge the US government to file a formal complaint against China, so that the USTR is asking companies to submit their complaints, only 35 companies have handed in their complaints⁴⁰⁴. The EU has a similar challenge in the preparation of evidence for a possible WTO case⁴⁰⁵. Companies want the problem of inadequate enforcement solved as long as it does not interfere with their direct personal interests⁴⁰⁶. The information China gives, based on the request of article 63 (3) TRIPs could be used as evidence, too. But if this were the only evidence, it would make the position of the complainant member almost exclusively dependent on the willingness to share the information of the defendant member. Third, almost all of the existing WTO cases focus on more specific provisions,

⁴⁰² These arguments could apply to other countries as well.

⁴⁰³ China's developmental stage is difficult to compare, since it is both a developing country and a developed country. Also according to Andy Sun China is not a monolithic society or market: "Anyone who wants to do business, or have anything to do with Chinese markets should not think that way. It is actually a capsule of both time and space", Andy Sun, 'China and WTO Compliance', CASRIP Publication Series: Rethinking In't Intellectual Property, 2000, no. 6, pg 243, available at: <http://www.law.washington.edu/CASRIP/Symposium/Number6/Sun.pdf>.

⁴⁰⁴ The USTR received only 35 submissions from the industry through the Section 301 submission procedures in 2005, USTR, 'Out-of-cycle review' 2005.

⁴⁰⁵ One of the recommendations to the Directorate-General for Trade Policy of the European Commission is to sensitise the industry on the importance to provide all required data to support a WTO case, and guaranteeing the confidentiality of the information provided. Ranjard and Misonne, see note 109, pp. 22 and 26.

⁴⁰⁶ Probably because they fear this will have an averse effect on their ability to do business in China, or they expect trade tensions or retaliations which do their business no good. Guanxi (personal connections) and political capital is important in China. Yu, see note 320, pg 127.

rather than a lack of general enforcement. Comparable cases were those filed by the US against Greece and one against the EU⁴⁰⁷. Fourth, an adverse WTO ruling should be calculated. Even countries as small as Antigua and Barbuda can prevail against the US if the WTO rules are on their side⁴⁰⁸. In a dispute settlement process it is likely that both parties win some major points. This should be taken into account when a country files a formal complaint against a defendant as formidable as China. Fifth, China needs guidance to help it make the transition to full compliance with WTO rules. Therefore well-conceived challenges before the WTO Dispute Settlement Body are needed to provide guidance during this critical period. WTO challenges will be particularly helpful in areas in which Chinese laws do not comply with more specific TRIPs provisions, as well as those in which the challenges are supported by prior WTO panel decisions. A sixth contra argument can be added: even if China will get reprimanded by a WTO panel decision and the complainant countries retaliate with unilateral sanctions, this will not automatically result in adequate IPR enforcement in China and acceptable IPR infringements levels originating from China. Because of many decentralised power bases, the central government in Beijing might be not powerful enough. Then again, maybe Tuinstra's argument that Beijing used the accession to the WTO to regain the power they gave away to decentralised bases⁴⁰⁹, also applies in case of a WTO case. In which case Beijing could improve the IPR enforcement, if it is willing, of course.

⁴⁰⁷ US claimed that Greece in one case and the EU in another violated articles 41 and 61 TRIPs by not providing effective enforcement of IPR. Both cases were eventually settled. Request for Consultations by the US, Greece, Enforcement of Intellectual Property Rights for Motion Pictures and Television Programs, WT/DS125/1, May 7, 1998; Request for Consultations by the US, European Communities, Enforcement of Intellectual Property Rights for Motion Pictures and Television Programs, WT/DS124/1, May 7, 1998.

⁴⁰⁸ Panel Report, US, Measures Affecting the Cross-Border Supply and Betting Services, WT/DS285.R, November 10, 2004.

⁴⁰⁹ Tuinstra, see note 308.

10.3 Conclusion of Part III and recommendations

The conclusion must be that although it could be argued that China's IPR enforcement is not compliant with TRIPs, no unequivocal preference can be given to a WTO case based on the non-compliance of general provisions. The practical reason is that to prove non-compliance of one, let alone more of the articles 41, 46 and 61 TRIPs is very difficult thanks to ambiguous terms used in these provisions and the low ambition level of TRIPs itself. And, although most companies in the US and EU want their governments to file a formal complaint against China, individually they do not want to burn their fingers. This makes the governments of WTO members dependent on anecdotal evidence. Fortunately, the question does not have to be answered dichotomously. A third way, although much more complex and difficult, could be treaded.

The implementation of specific TRIPs provisions into China's IPR laws and regulations might not be enough for China to be TRIPs compliant. However, the general TRIPs provisions are intrinsically weak and even if a WTO member is compliant to these provisions, the IPR enforcement could still be inadequate or rampant. And likewise, even when a WTO dispute settlement panel would determine China to be non-compliant with TRIPs, this might not bring salvation to countries plagued by IPR infringements originating from China.

10.3.1 Recommendations

Because TRIPs is a multilateral treaty might not be plausible that it will be reformed from a treaty that obligates to legislate to an obligations of means based treaty, let alone to an obligations of result based treaty. To change provisions such as article 41 (5) TRIPs, the Achilles heel of TRIPs, might be too much to ask for. Objective ways to monitor IPR enforcement in all WTO members could be deployed. So that a range of infringements will be determined for every WTO member given its economic development. This way, every WTO member is accountable for its IPR enforcement progress or decline. To incorporate automatic sanctions into the system, for example a license to use trade

barriers against a non-compliant WTO member, could be considered. This might be too ambitious for many WTO members, as the protests show against making IP enforcement a permanent agenda issue of the TRIPs Council. This is exactly why it is expected bilateral treaties will take off between WTO members.

So far, China has been less than generous with objective data about the enforcement and infringement rates. Therefore, transparency about these topics is of crucial importance, because it will expose the progress or decline of China's IPR enforcement efforts. The Enforcement/Infringement Ratio could contribute to this transparency by determining in which direction China's IPR enforcement is going.

The possibility to bring a WTO case against China could be used to pressure its policymakers and change their act. WTO members could decide to seriously gather evidence about IPR infringements originating from China, from their respective companies. In order to do so, it might be desirable that companies are able to testify while their identity is kept confidential.

Especially in a complex IPR system such as China's, pragmatic steps to prevent IPR infringement might be preferable. Alternative methods such as using contracts can facilitate IPR enforcement, as in the Landlords case. Or a WTO member can take over a part of the financial risk of its companies and reimburse the costs they have in relation to IP enforcement, as the Austrian federal promotional bank is doing for their small and medium sized enterprises.

Improvements of a rule of law and independent judiciary might not be feasible in the short term, since these extra-judicial factors are non-negotiable as long as China's Communist Party remains in power. Market access, however is an extra-judicial factor that could be resolved. However, China is more willing to give market access to economic sectors that are not deemed important to China's industry. Then again, China's government is receptive for support and coordination to improve the other extra-judicial

factors, such as a uniform application of law, integrity and impartiality of the courts and expertise in and respect for IPR, because it would rein in local power back to Beijing.

Finally, overseas companies should exchange information about their experiences of IPR enforcement in China in a structural way. As long as China's government cannot enforce intellectual property adequately, companies should actively protect and enforce their IPR rights, using all enforcement routes available. Because, China's IPR system helps those best who help themselves.

Attachment

Chapter 2 Civil Enforcement Route

I: Supreme People's Court

At the top is the single Supreme People's Court in Beijing, which has the right to review a case, or remind the case⁴¹⁰ to the original court at different levels, hereby making the rulings more uniform. To increase this uniformity process further, the Supreme People's Court issues judicial interpretations, that are expected to be binding to all lower courts in the country. In addition, it publishes the Gazette, in which important rulings are selected, which are deemed exemplary⁴¹¹. Therefore, de facto legal precedents do exist under the Chinese legal regime.

II: Higher People's Court

Each province and cities that rank as province⁴¹² and autonomous regions have a Higher People's Court. There are about 33 Higher People's Courts⁴¹³ at provincial levels. Some cases are handled by the High People's Court as the court of first instance, because of the impact they have on society⁴¹⁴. In these cases when an appeal is made, the Supreme People's Court will be the appellate court.

⁴¹⁰ Reminding a case means the Supreme People's Court orders a lower court to retry the case that a wrongful ruling has taken effect, Jiang Zhipei, 'Patent Litigation in China', September 13, 1999, available at: <http://www.chinaiprllaw.com/english/forum/forum4.htm#15>.

⁴¹¹ Peter Feng, 'Intellectual Property Law in China' Second Edition, Sweet & Maxwell, 2003, pp. 27-31.

⁴¹² Examples include Beijing, Shanghai, Tianjin.

⁴¹³ Feng, see note 411, pp. 27-30.

⁴¹⁴ "[D]ue to the huge amount of damages and severe impact on the society", Jiang, see note 410.

III: Intermediate People's Court

Each major Chinese city has one or two Intermediate People's Courts. There are approximately 390 Intermediate People's Courts⁴¹⁵ in total. Ninety percent of IP cases are heard by Intermediate People's Courts at first instance⁴¹⁶.

IV: Basic People's Court

Each county, or district, in each major city has one Basic People's Court. In total, there are more than 3,000 Basic People's Courts⁴¹⁷.

V: Specialisation of courts and judges

Since 1993, Chinese courts have made efforts to establish special trial chambers of IP. 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 Courts⁴¹⁸. Judges on the panels have science or engineering backgrounds and experience in dealing with IP cases. It is better, particularly in patent and copyright cases where the issues involved are generally more complex, to have the case heard by one of these courts. Such courts include the Intermediate People's Courts in Beijing, Shanghai, Guangzhou and Shenzhen⁴¹⁹.

⁴¹⁵ Congressional Executive Commission on China, Virtual Academy 'Chinese Courts and Judicial Reform', June 3, 2004, available at: <http://www.cecc.gov/pages/virtualAcad/rol/judreform.php>

⁴¹⁶ Li Jian, 'China hones its civil litigation rules', *Managing Intellectual Property*, China IP Focus, 2006, pg 9, available at: <http://www.managingip.com/Default.asp?Page=17&ISS=21608&SID=622113>.

⁴¹⁷ Congressional Executive Commission on China, see note 415.

⁴¹⁸ 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%20or%20grey.pdf.

⁴¹⁹ Wheare, see note 80.

VI: Forum shopping

Where a provincial court has a reputation of local protectionism, the right holder should consider, where possible, relying on a sale of an infringing product in a place such as Beijing or Shanghai, so the more reputable Intermediate People's Court located there can decide the case⁴²⁰. Article 29 Civil Procedure Law states that 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. Or article 24 Civil Procedure Law might be relevant, which states that a lawsuit initiated over a contract dispute shall be under the jurisdiction of the people's court in the place where the defendant has his or her domicile or where the contract is performed.

However, one should note that if one sends a cease-and-desist letter to an alleged infringer of patent, trademark or copyright, the alleged infringer can ask for a declaration of non-infringement at a court of his domicile or where the product at issue is made, sold or offered for sale⁴²¹. Hence, preempting all of the plaintiff's anticipated forum shopping choices.

VII: Patent

Patent cases are often complex. And the amount of cases is growing. In 2000 only 26 patent cases were litigated in China, in 2004 this number grew to 546 (1999-2004 SIPO Annual Reports). That is why the Supreme People's Court has designated 50 courts, mostly Intermediate People's Courts as courts of first instance for adjudication of patent infringement claims. If the damages claimed are above RMB 100 million (about US\$ 12 million), the case will be referred to the Higher People's Courts as the courts of first

⁴²⁰ Chances are bigger that the court is fair, impartial and has expertise in IP. Besides, it will save the plaintiff travel expenses and time.

⁴²¹ Suzhou Longbao Bioengineering Industrial Corp. versus Suzhou Langlifu Health Products Co, Supreme People's Court, July 20 2002; Benjamin Bai, et al., 'Forum Shopping Comes to China', China IP Focus 2006, pg 41.

instance, according to Bai et al.⁴²². The Chinese government is considering⁴²³ an IP specialized court system, similar to those discussed in the US and EU⁴²⁴.

VIII: Trademark and copyright

Trademark and copyright related disputes are heard by more than 300 Intermediate People's Courts nationwide as the court of first instance. A few Basic People's Courts in several cosmopolitan cities assigned by the relevant Higher People's Courts also have jurisdiction to hear first instance intellectual property disputes. The No.3 Civil Chamber in these courts have been assigned to professional judges⁴²⁵.

IX: Article 42 TRIPs Fair and equitable procedures

This 'fair and equitable procedures' article obliges members to provide right holders the civil judicial remedies provided in the agreement, which is self-evident. However, according to note 11 of article 42 TRIPs, the term right holder includes federations and associations having legal standing to assert such rights. The Music Copyright Society⁴²⁶ of China, an organization for collective administration of copyright⁴²⁷, is such an example. This organisation can claim in its own name the right for the copyright owners and copyright-related right holders, and participate, as an interested party, in litigation or arbitration relating to the copyright or copyright-related right⁴²⁸. Fair and equitable, in the

⁴²² J. Benjamin Bai, et al., 'United States: Patent Litigation in Chinese Courts', April 20, 2006. available at: <http://www.mondaq.com/article.asp?articleid=39258&rss=11&shownav=0&login=true&print=1>.

⁴²³ Wu, see note 360.

⁴²⁴ "US Representative Darrell Issa (CA-49) introduced H.R.5418 on May 18, 2006, to establish a pilot program in certain United States district courts to encourage enhancement of expertise in patent cases among district judges. The European Commission has recently expressed some openness to the proposal for a patent court. IP judges have been promoting the idea through the draft European Patent Litigation Agreement (EPLA), a proposal that has been evolving since 1999", Edward Jung, 'Testimony before the senate committee on Trade, Tourism, and Economic Development about Piracy and Counterfeiting in China', March 8, 2006, available at: http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_06_07wrts/Edward_Jung.pdf.

⁴²⁵ Jiang Zhipei, 'Judicial Remedy and Provisional Measures For IP Rights Protection in Civil Procedures in China (2)', available at: <http://www.chinaiprlaw.com/english/forum/forum28.htm>.

⁴²⁶ Music Copyright Society of China, available at: <http://www.mcsc.com.cn/english/aboutmcsc.htm>.

⁴²⁷ China supports the collective management model, but in practise hardly allocates any resources to it. Ranjard and Misonne, see note 109, pg 13.

⁴²⁸ Article 8 Copyright Law 2001.

context of a civil procedure, means that the judicial interests of both parties are guaranteed. Hence, the defendant should be sufficiently informed about the claim of the plaintiff. Both parties shall be allowed to be represented by independent legal counsel, be entitled to substantiate their claims and present all relevant evidence. These TRIPs requirements and whether they are implemented in China's IPR laws are dealt with below.

X: Article 43 TRIPs Evidence

The general rule on presentation of evidence is that the party asserting an allegation bears the burden of proof. The plaintiff in an infringement case, as pointed out in articles 49 and 50 Copyright Law; articles 57 and 58 Trademark Law; and article 61 Patent Law, needs to collect sufficient evidence⁴²⁹ for discharging the burden of proof. There is a pre-trial discovery system which allows an IP owner to review the defendant's behaviour in China⁴³⁰. The plaintiff must obtain evidence of infringement by its own efforts before initiating the lawsuit. Exchange of evidence is conducted between the parties before the trial⁴³¹. The burden of proof is reversed under article 57 Patent Law, which stipulates that in infringement cases relating to invention patents for production processes for new products, manufacturers of identical products must furnish proof that their production processes are different from the patented process.

⁴²⁹ "It is critical that these documents are exactly right, as in many cases the strategy of local defendants is to focus their entire defence on the procedural inaccuracies of evidence introduced by the plaintiff, rather than a defence of no infringement", Chan and Ross, see note 96.

⁴³⁰ Since Beijing University Founder (Group) Co Ltd and Beijing Red Building (Honglou) Institute of Computer Science and Technology versus Beijing GaoShuTianLi Technique Co Ltd and Beijing GaoShu Technique Company, one of the most controversial cases of 2004, trap orders are legitimate: "a software company sued a PC manufacturer for copyright infringement after having placed a purchase order for a PC and insisted that certain unauthorized software be installed onto the PC as a condition of purchase. The PC manufacturer complied. At first instance, the Beijing No. 1 Intermediate Court ruled in favour of the software company that there had been copyright infringement. Upon the PC manufacturer's appeal to the Beijing High Court, however, the Court ruled that because the plaintiff had solicited the defendant to commit infringement, the trap order was illegitimate and could not be adduced as evidence of infringement. This decision was finally reversed at third instance (..) in the People's Supreme Court". Chan and Parsonage, see note 96.

⁴³¹ "Authentication of evidence is usually done through in-court cross-examination before a panel of judges, but sometimes complicated technical matters may also be dealt with during pre-trial hearings, with participation of technical experts as "people's assessors," Lipu Tian (SIPO), 'Punitive Damages as a Contentious Issue of IPR', AIPPI, pg 4, available at: http://www.aippi.org/reports/q186/q186_china.pdf.

However, article 43 (1) TRIPs states that if the party has presented reasonably available evidence sufficient to support its claims and has specified evidence relevant to the substantiation of its claim, which lies in the control of the opposing party, the judicial authorities shall have the authority to order that this evidence be produced by the opposing party. Article 64 Civil Procedure Law makes clear that although a party has its own responsibility to provide evidence, the people's court recognises that there can be objective reasons or considers it necessary for the trial of the case that the people's court shall investigate and collect the evidence⁴³². Article 65 Civil Procedure Law states that the relevant unit or individual cannot refuse this. The parties are not required to give discovery of documents held abroad in pre-trial discovery⁴³³.

Providing proper documentation^{434 435} of the infringement is also in China essential to prove an infringement⁴³⁶. Oral evidence is rarely admitted. Of course, the difficulty is that infringers often do not leave paper trails. In principle the court may actively collect evidence. However, this is not very realistic, due to a mounting workload the court can barely manage. Therefore, Wheare⁴³⁷ advises to use a notary public to witness a purchase of an infringing product, to conduct an in-depth investigation including the purchase of large quantities of infringing products for export; and using covert video to record investigations⁴³⁸. Parties can use experts, for example academics or ex-judges to give their opinions to the judge. According to Wheare some judges choose to contact these

⁴³² According to Linus Zhu, the court will only investigate any proof in conjunction with state or public interests, procedural matters or upon the party's request. "Even for the latter, the party's request for investigation will be accepted only if made in writing and accompanied by details and explanations to the extent that the evidence in question shall concern national, commercial or personal secrets, or is by nature inaccessible to the party relying on such evidence", Linus Zhu, 'Rules Concerning Evidence in Civil Proceedings', 2003, available at: <http://www.duanduan.com/lslt-e-2003-1-23-2.htm>.

⁴³³ Tian, see note 431, pg 4.

⁴³⁴ Only Chinese language evidence is admissible before the courts. Evidence obtained outside China needs to be notarised by a notary public and legalised by the embassy office at the place where the evidence is obtained. Wheare, see note 80.

⁴³⁵ Although not expressly provided by the law, official documents and documents with original signatures and seals have higher evidentiary value compared to other evidence. For example, government reports, such as reports from the Quality and Technical Supervision Bureau, are often used as conclusive evidence of product quality. Gao, see note 215.

⁴³⁶ China has no formal discovery procedure.

⁴³⁷ Wheare, see note 80.

⁴³⁸ The Supreme Court has issued an opinion making the use of audio and video tapes taken without the consent of the other party in the case of civil enforcement admissible, Wheare, see note 80.

experts directly without the presence of either party, which conflicts with procedural due process.

Evidentiary requirements in lawsuits are stricter than those in administrative proceedings, but less strict than those in criminal procedures.

Article 43 (2) TRIPs clarifies that if the opposing party does not provide the necessary information within a reasonable period⁴³⁹ or impedes the procedure, the judicial authorities can make preliminary and final determinations on the basis of the information presented to them. The equivalent of this can be found in the second sentence of article 71 Civil Procedure Law: “If a party refuses to make a statement, this shall not prevent the people's court from ascertaining the facts of a case on the basis of other evidence”.

XI: Civil attachment to a criminal case

When plaintiffs attach civil lawsuits to criminal proceedings, they need to prove their case based on the civil procedure rules. The Supreme People’s Court in the Judicial Interpretation on the Provisions Regarding to Evidence Civil Dispute of 2001⁴⁴⁰ has defined the standard of proof in a civil case as "obviously stronger". According to Gordon Gao⁴⁴¹ this standard is lower than the one used in a criminal case, pursuant article 162 (1) Criminal Procedure Law. So, at least in theory, if facts are proven in a criminal case, they will be regarded as proven in the attached civil case. However, besides paying attention to new issues not discussed in the criminal trial, courts might want to re-examine the evidence in the civil trial.

⁴³⁹ In case of evidence created overseas purported to be adduced in litigation one can argue that the time limit is not always reasonable. See Chapter 6.2.1, article 41 (2) TRIPs.

⁴⁴⁰ In the Committee Meeting No. 1201 on December 6, 2001, the Adjudication Committee of the Supreme People's Court passed the Judicial interpretation on the Provisions Regarding to Evidence in Civil Dispute and made it effective on April 1, 2002, Jiang, see note 425.

⁴⁴¹ Gao, see note 215.

XII: Article 44 TRIPS Injunctions

According to article 44 (1) TRIPs, people's courts can order a party to desist from infringement. Article 118 General Principles of Civil Law⁴⁴² deals with permanent injunction and provides that the right holder is entitled to demand the infringer desist, the ill effect be eliminated and damages be compensated for, upon the finding of infringement of copyright, trademark and patent infringement. Article 134 (1) General Principles of Civil Law provides that cessation of infringement is one of the main methods of bearing civil liability. Permanent injunctions can be refused when they affect public interests⁴⁴³. The second sentence of article 44 (1) TRIPs states that members can decide whether to protect defendants who acquired or ordered infringed goods prior to knowing or having reasonable grounds to know this was the case. In good faith limitations, such as in the last paragraph of article 56 Trademark Law, this provision is implemented. Article 44 (2) TRIPs is not obligatory.

XIII: Article 45 TRIPs Damages

Damages distinguishes the civil enforcement route from the administrative enforcement route. It is arguably one of the most powerful instruments a right holder has. Article 45 (1) TRIPs prescribes that the court should be able to order the infringer to pay the right holder damages adequate to compensate⁴⁴⁴ for the injury the right holder has suffered because of an infringement of that person's intellectual property right by an infringer who

⁴⁴² Article 118 General Principles of Law If the rights of authorship (copyrights), patent rights, rights to exclusive use of trademarks, rights of discovery, rights of invention or rights for scientific and technological research achievements of citizens or legal persons are infringed upon by such means as plagiarism, alteration or imitation, they shall have the right to demand that the infringement be stopped, its ill effects be eliminated and the damages be compensated for.

⁴⁴³ Article 7 General Principles of Civil Law: Civil activities shall have respect for social ethics and shall not harm the public interest, undermine state economic plans or disrupt social economic order.

⁴⁴⁴ The Chinese group of AIPPI chaired by SIPO president Lipu Tian is in favour to add punitive damage awards in case of IP rights infringements. One can argue that article 20 Patent Civil Dispute Interpretation, offers the possibility of an enhanced damage to calculate the interest of the infringer that engages in infringement as a way of living by computing his sales profit, instead of his business profit. Another example of this kind of enhanced damage is article 21 Patent Civil Dispute Trial Interpretation that where there is no patent licensing fee to refer to, or the license fee is obviously unreasonable, the court may, depending on various factors such as the kind of the patent right, the nature and facts of the infringement, set the amount of damages at more than RMB 5,000 and less than RMB 300,000 in usual situation, but in no case exceeding RMB 500,000, which leaves a lot of discretion to the judge. Tian, see note 431.

knowingly, or with reasonable grounds to know, engaged in infringing activity. In China's IPR laws, however, there is no guarantee that the plaintiff can recover his damages⁴⁴⁵, because the defendant may have no or hidden financial resources.

Article 45 (2) TRIPs obliges that the court can order the infringer to pay the right holder expenses, which may include appropriate attorney's fees⁴⁴⁶. In appropriate cases, this provision even allows for courts to order recovery of profits and/or payment of pre-established damages even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity.

XIV: Copyright Law

Article 48 Copyright Law is compliant to article 45 (1) TRIPs in that it obliges courts to have the authority to order the infringer of a copyright or a copyright-related right to pay damages for the injury suffered by the right holder or where this is difficult to compute the damages on the basis of the unlawful income of the infringer. The amount of damages shall also include the appropriate fees paid by the right holder to stop the infringing act, which is in line with the first sentence of article 45 (2) TRIPs.

Article 24 Copyright Civil Dispute Interpretation⁴⁴⁷ explains how to calculate the actual injury of a right holder. This should be done on the basis of the product by multiplication of the number of reduced distribution of the reproductions or the volume of sales of the infringing reproductions because of the infringement by the unit profit of the sale of the reproductions of the right owner. Where it is difficult to determine the reduced distribution of the reproductions, the determination shall be made on the basis of the volume of the market sales of the infringing reproductions.

⁴⁴⁵ 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. Wheare, see note 80.

⁴⁴⁶ The Supreme People's Court Patent Trial Provisions specifically provides for award of "reasonable expenses paid by the patent owner for investigation or for stopping the infringement", it contains no reference to attorney fees. In practice, the court seldom award attorney's fees in IP infringement litigation in China. Tian, see note 431, pg 1-2.

⁴⁴⁷ Interpretation by the Supreme People's Court of Several Issues Relating to Application of Law to Trial of Cases of Civil Disputes over Copyright (2002), adopted at the 1246th Meeting of the Adjudication Committee of the Supreme People's Court on 12 October 2002 and entering into force on 15 October 2002.

Where the right holder's actual injury or infringer's unlawful income cannot be determined, the People's Court shall judge the damages not exceeding RMB 500,000, depending on the circumstances of the infringing act. Article 25 (1) Copyright Civil Dispute Interpretation explains that where it is difficult to determine the actual injury suffered by the right holder or the illicit benefit of an infringer, the People's Court shall apply, at the request of the interested party or within its capacity, article 48 (2) Copyright Law to the determination of the amount of damages⁴⁴⁸. An interesting question is whether, and if so to what extent non-released movies can contribute to the damages that a plaintiff can claim⁴⁴⁹.

Article 25 (3) Copyright Civil Dispute Interpretation permits interested parties to settle on the amount of damages according to article 25 (1) Copyright Civil Dispute Interpretation. The culpability requirement of article 45 (1) TRIPs can be found in article 52 Copyright Law too. An alleged infringer of a copyright should be able to prove that his exploitation of a work has been authorized or originates from a legitimate source and otherwise bear legal liability.

Conform article 45 (2) TRIPs article 26 Copyright Civil Dispute Interpretation states that the appropriate fees paid for stopping an infringing act under article 48 (1) Copyright Law, shall include the appropriate fees paid by a right holder or an appointed agent for investigation of, or for collection of evidence concerning, the infringing act. The people's court may, at the litigant's claim of the interested party and according to the specific circumstances of the case, add to the damages the lawyer's fee paid in compliance with the provisions of the relevant State departments.

⁴⁴⁸ Article 25 (2) Copyright Civil Dispute Interpretation: The People's Court, in determining the amount of damages, shall take account of the circumstances, such as the type of the work, fees for fair use, nature of the infringing act or consequences of the infringement, and make a comprehensive determination.

⁴⁴⁹ In the MPA versus Sohu case there were no decreased sales for the movie companies represented by MPA, but a claim could be based on the volume of the market sales of the infringing reproductions or statutory damages, depending on the circumstances. Associated Press, 'US film group: Chinese portal Sohu loses copyright suit over movie downloads', International Herald Tribune, December 29, 2006, available at: http://www.iht.com/articles/ap/2006/12/29/business/AS_TEC_China_Sohu_Movie_Piracy.php.

XV: Trademark Law

Are the damages that article 56 Trademark Law can provide adequate to compensate the injury the right holder has suffered, as is required by article 45 (1) TRIPs? Article 56 Trademark Law states there are three methods to calculate the amount of damages: 1. the profit the infringer has earned, because of the infringement; 2. the injury the right holder has suffered from the infringement⁴⁵⁰, including the appropriate expenses of the right holder for stopping the infringement. The plaintiff may elect the method of calculating compensation. Article 14 Trademark Civil Dispute Interpretation⁴⁵¹ explains how to calculate profits of the infringer: the sales of the infringing goods multiplied by the unit profit, or if the unit profit is not known, the unit profit of the goods bearing the registered trademark. Article 16 of this judicial interpretation explains how the losses caused by the infringement are to be calculated: the amount of sale reduction of goods multiplied by the unit profit of the goods bearing the registered trademark. 3. However, if these calculations are difficult to determine⁴⁵², the People's Court is to determine a statutory damage award of no more than RMB 500,000.

Article 16 Trademark Civil Dispute Interpretation requires courts to rely on the claimant's request or use its discretion pursuant to article 56 (2) Trademark Law and take certain factors⁴⁵³ into account when determining the level of statutory damages.

Article 45 (1) TRIPs stipulates that the infringer who knowingly, or with reasonable ground to know, has to pay the right holder damages. The good faith limitation in the last

⁴⁵⁰ To calculate the profit of the infringer or loss of the right holder, only the period of the infringement is relevant. This means potential future damages of the right holder's reputation or future enrichment of the infringer's passing off should be taken into account when calculating the amount of damages.

⁴⁵¹ Supreme People's Court Relating to Application of Law in Adjudication of Cases of Trademark Civil Disputes, adopted on 12 October 2002 at the 1246th Meeting of the Adjudication Committee of the Supreme People's Court .

⁴⁵² However, difficulty should not impose an insurmountable obstacle to the courts, probably meant is impossible. Whether this is the case is at the discretion of the People's Court.

⁴⁵³ Article 16 Trademark Civil Dispute Interpretation: In its determination of the amount of compensation, the people's court shall take into consideration the nature, duration and consequence of the infringement, the reputation of the trademark in question, the amount of licensing fees for the use of the trademark, the type, duration and scope of the trademark license and the reasonable costs to enjoin the infringement.

paragraph of article 56 Trademark Law is in line with the culpability requirement⁴⁵⁴, which is, however, a minimum standard⁴⁵⁵.

Article 45 (2) TRIPs obligates that the courts get the competence to order the infringer to pay the right holder's expenses, which may include appropriate attorney's fees. Article 17 Trademark Civil Dispute Interpretation explains that the reasonable costs incurred to enjoin infringement as provided for in article 56 (1) Trademark Law include the reasonable costs incurred by the claimant or his/her authorized agent to conduct investigation and evidence collection in respect of any infringement. Legal fees may be included in the damage award, at the request of the injured party, or in special cases *ex officio*, pursuant to the regulations of the relevant governmental departments⁴⁵⁶.

XVI: Patent Law

Article 60 Patent Law is implementing article 45 (1) TRIPs in that it obligates the courts to have the authority to order the infringer of a patent to pay damages for the injury suffered by the right holder. The damage shall be assessed on the basis of the losses suffered by the right holder⁴⁵⁷ or the profits which the infringer has earned through the infringement of the patent. Article 20 Patent Civil Dispute Interpretation⁴⁵⁸ explains that the people's court, on request of the right holder, determines the amount of compensation according to the losses⁴⁵⁹ suffered by the right holder due to the infringement or the interests⁴⁶⁰ sought by the infringer from the infringement.

⁴⁵⁴ Article 56 (3) Trademark Law: Anyone who sells a goods that it or he does not know has infringed the exclusive right to use a registered trademark, and is able to prove that it or he has obtained the goods legitimately and indicates the supplier thereof shall not bear the liability for damages.

⁴⁵⁵ Last sentence of article 45 (2) TRIPs states: [...] even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity.

⁴⁵⁶ In practice, this provision could act to significantly limit awards of attorney's fees to foreign rights holders, Baker & McKenzie, Intellectual Property Guide: China, 2004.

⁴⁵⁷ The actual pecuniary loss of the patent owner is a measure that "is inapplicable to situations where there is a big demand for the patented product in the market, or the sales of the patent owner increase rather than drop even though the infringing products are put into the market," Zhang Guangliang, see note 87.

⁴⁵⁸ Several Provisions of the Supreme People's Court on Issues Relating to Application of Law to Adjudication of Cases of Patent Disputes, 2001, adopted on 19 June 2001 at the 1180th Meeting of the Adjudication Committee of the Supreme People's Court.

⁴⁵⁹ Article 20 (2) Patent Civil Dispute Interpretation: The losses suffered by the right holder due to the infringement may be computed by the total of the infringing products sold in the market times the

In case the losses of the right holder or the income of the infringer are (too) difficult to determine, article 21 Patent Civil Dispute Interpretation explains how to calculate the amount of compensation. If a reference to a royalty can be made, the People's Court may determine the reasonable amount of compensation⁴⁶¹, with reference to one to three times the royalty, based on certain criteria⁴⁶². Generally, courts would use “reasonable royalty” as the yardstick for measuring damages⁴⁶³.

In case no reference to a royalty can be made or if it is obviously unreasonable, the people's court may determine a statutory damage award, explains article 21 Patent Civil Dispute Interpretation, based on factors such as the kind of patent right; the nature and facts of the infringement. This minimum amount must be between RMB 5,000 and less than RMB 300,000, while the maximum amount is RMB 500,000⁴⁶⁴.

reasonable profit of each infringing product. Where it is difficult to determine the total reduction in the volume of sale by the right holder, the total of the infringing products sold in the market times the reasonable profit of each infringing product may be deemed to the losses suffered by the right holder due to the infringement.

⁴⁶⁰ Article 20 (3) Patent Civil Dispute Interpretation: The interest of the infringer from the infringement may be computed according to the total of infringing products sold in the market times the reasonable profit of each infringing product. The income of the infringer from the infringement is generally counted according to the business profit of the infringer. As for the infringer who solely engages in infringement as its or his entire business, the income may be computed according to its or his sales profit.

⁴⁶¹ The reasonable amount of compensation is generally the same as the royalties in most patent cases. However for intentional infringement, malicious action and repeated violation the amount of compensation should be calculated by multiplying the possible royalty by one to three times. According to Luo Dongchuan, deputy chief judge of the Third Civil Tribunal of the Supreme People's Court of China, 'IIP Comparative Study on the Judicial Protection of Intellectual Property: From the Viewpoint of the Trial of Intellectual Cases between China and Japan', IIP Bulletin 2003, available at: http://www.iip.or.jp/e/summary/pdf/detail2002/e14_16.pdf.

⁴⁶² Pursuant to article 21 Patent Civil Dispute Interpretation: [...] kind of patent right involved; the nature and facts of the infringement by the infringer; the amount of the royalty; the nature; extent and time of the patent license with reference to one to three times the royalty; [...].

⁴⁶³ Only in situations of wilful infringement, egregious infringement, and repetitious infringement would courts apply treble the patent licensing fee provision. Here please be noted that court decides the amount of damage based on treble the patent licensing fee instead of treble damages calculated by the court. Tian, see note 431.

⁴⁶⁴ It is expected that this is about to change in the third amendment of the Patent Law: “Turning back to enforcement, damage can be calculated on the basis of the loss to the patentee and the damage and the judge can decide the range of the damage. The maximum is now about Rmb500,000 (\$63,000) and that is increased to Rmb1 million. That is a great change, as some clients are not satisfied with the damages issue decided by the court. The average is around \$9,000 and that cannot even cover patent attorneys' fees. We hope the situation can be improved and the courts should consider the burden of proof in deciding damages. Another question is: can US discovery procedure be introduced into China? And triple damages for wilful infringement? Many of these issues should be considered in the future,” Tai, see note 314.

Patent Law has no culpability requirement as stipulated in article 45 (1) TRIPs, which is not a coincidence, because of the special characteristics of patents⁴⁶⁵. Therefore, to order recovery of profits⁴⁶⁶ and/or the payment of pre-established damages⁴⁶⁷, even where the infringer did not knowingly, or with reasonable ground to know, engage in infringing activity, can be seen as an appropriate case, pursuant the last sentence of article 45 (2) TRIPs⁴⁶⁸. While article 22 Patent Civil Dispute Interpretation specifically provides, on the request of the right holder or ex officio, for award of reasonable expenses paid by the patent owner for investigation or for stopping the infringement, pursuant to the first sentence of article 45 (2) TRIPs, it contains no reference to attorney's fees. Neither the Patent Law nor the Patent Implementing Regulations provide for award of attorney's fees⁴⁶⁹ to a prevailing plaintiff in a patent infringement litigation⁴⁷⁰.

XVII: Article 47 TRIPs Right of information

Whether or not the courts have the authority to order such remedy is not mandatory.

XVIII: Article 48 TRIPs Indemnification of the defendant

Article 48 (1) TRIPs prescribes that the courts have the authority to order the plaintiff to pay a bond, which guarantees that the defendant can be compensated when he was

⁴⁶⁵ Patents are complex subject matter; theory about patents changes frequently; and the infringements are often commercial infringements.

⁴⁶⁶ Article 45 (2) TRIPs is not mentioning the losses suffered by the right holder, as stated in article 60 Patent Law.

⁴⁶⁷ Pursuant to article 21 Patent Civil Dispute Interpretation, the courts can order only one calculation method, so the wording "and" in article 45 (2) TRIPs does not apply here.

⁴⁶⁸ Zhang asserts that TRIPs puts a limitation on damages, because the right owner is only entitled to damages if the infringer knew or had reasonable grounds to know, engaged in infringing activity. However, this is not the case if one looks at the second sentence of article 45 (2) TRIPs, which states that in appropriate cases, members may authorize the judicial authorities to order recovery of profits and/or pre-established damages even where the infringer did not knowingly, or with reasonable ground to know, engage in infringing activity. This author does not agree with Zhang that in this respect the Chinese Patent Law, where the infringer that did not know or should not have known he was infringing cannot claim this as a defence, protection for the patent owner in China is well above the requirement set forth by TRIPs. Zhang, see note 87, pg 67.

⁴⁶⁹ This author concurs with Zhang's recommendation for China to promulgate a judicial interpretation to unify the decisions of the lower courts on the issue of attorney fees, see note 87, pg 67.

⁴⁷⁰ In practice, the court seldom awards attorney's fees in IP infringement litigation in China. Award of attorney's fees is an exception in China. Tian, see note 431, pg 2.

wrongfully enjoined or restrained. The equivalent of this provision can be found in article 50 Copyright Law⁴⁷¹ and article 58 Trademark Law⁴⁷². Article 61 Patent Law refers to the relevant articles 93⁴⁷³ and 96⁴⁷⁴ Civil Procedure Law. Whether this security include appropriate attorney's fees is not mandatory, according to TRIPs.

Article 48 (2) TRIPs: Members shall only exempt both public authorities and officials from liability to appropriate remedial measures where actions are taken or intended in good faith in the course of the administration of that law. Articles 60⁴⁷⁵, 61⁴⁷⁶, 62 Trademark Law⁴⁷⁷ and the articles 66⁴⁷⁸ and 67 Patent Law⁴⁷⁹ a contrario comply with article 48 (2) TRIPs and make officials' modes of behaviour that qualify as conflicts of interest as explicitly liable. The Copyright Law lacks such provisions, because copyrights

⁴⁷¹ Article 50 Copyright Law: (...) The People's Court may order the applicant to provide a guaranty, if the latter fails to do so, the Court shall reject the application. (...)

⁴⁷² Article 58 Trademark Law: (...) The People's Court may order the applicant to place guaranty; where the applicant fails to place the guaranty, the application shall be rejected. (...)

⁴⁷³ Article 93 Civil Procedure Law: (...) The applicant shall provide a security; if the applicant fails to do so, his or her application shall be rejected.

⁴⁷⁴ Article 96 Civil Procedure Law: If the application is wrongfully made, the applicant shall compensate the person against whom the application is made for any loss incurred from property preservation.

⁴⁷⁵ Article 60 Trademark Law: The State functionaries for the registration, administration and reexamination of trademarks must handle cases according to law, be incorruptible and disciplined, devoted to their duties and courteous and honest in their provision of service. The State functionaries of the Trademark Office and the Trademark Review and Adjudication Board and those working for the registration, administration and reexamination of trademarks shall not practice as trademark agent and engage in any activity to manufacture and market goods.

⁴⁷⁶ Article 61 Trademark Law: The administrative authority for industry and commerce shall establish and amplify its internal supervision system to supervise and inspect the State functionaries for the registration, administration and reexamination of trademarks in their implementation of the laws and administrative regulations and in their observation of the discipline.

⁴⁷⁷ Article 62 Trademark Law: Where any State functionary for the registration, administration and reexamination of trademarks neglects his duty, abuses his power, engages in malpractice for personal gain, handles the registration, administration and reexamination of trademarks in violation of law, accepts money or material wealth from any interested party or seeks illicit interest, which constitutes a crime, he or she shall be prosecuted for his or her criminal liability. If the case is not serious enough to constitute a crime, he or she shall be given disciplinary sanction according to law.

⁴⁷⁸ Article 66 Patent Law: The administrative authority for patent affairs may not take part in recommending any patented product for sale to the public or any such commercial activities. Where the administrative authority for patent affairs violates the provisions of the preceding paragraph, it shall be ordered by the authority at the next higher level or the supervisory authority to correct its mistakes and eliminate the bad effects. The illegal earnings, if any, shall be confiscated. Where the circumstances are serious, the persons who are directly in charge and the other persons who are directly responsible shall be given disciplinary sanction in accordance with law.

⁴⁷⁹ Article 67 Patent Law: Where any State functionary working for patent administration or any other State functionary concerned neglects his duty, abuses his power, or engages in malpractice for personal gain, which constitutes a crime, shall be prosecuted for his criminal liability in accordance with law. If the case is not serious enough to constitute a crime, he shall be given disciplinary sanction in accordance with law.

come into being without any registration, due the Berne Convention's formality prohibition⁴⁸⁰.

XIX: Article 50 (1)-(7) TRIPs Provisional measures

Provisional measures are crucial remedies^{481 482} for right holders to nip the infringement in the bud and to gather evidence of infringement or seize property to recover damages⁴⁸³. In fact, many right holders cannot afford to start a lengthy and costly litigation process on the merits of the case. Many fear the role of plaintiff, who, even if he does win, still goes bankrupt due to insufficient damage awards. Article 50 TRIPs provides for minimum standards of these important and effective provisional measures that the governments of WTO members should make available to the natural and legal persons of each member state. Chapter IX of the Civil Procedure Law Property⁴⁸⁴, entitled Property Preservation and Preliminary Execution, six provisions in the respective intellectual property laws, and two judicial interpretations are the most relevant foundation for provisional measures in China. These will be pointed out in the chapters below.

XX: Article 50 (1) TRIPs

TRIPs distinguishes between the prevention of infringement (article 50 (1a) TRIPs) and the preservation of evidence (article 50 (1b) TRIPs) as the objects of the provisional measures. The objective, to stop an already occurring infringement is conspicuously

⁴⁸⁰ Article 5 (2) Berne Convention.

⁴⁸¹ "Provisional measures increasingly become the most important and effective weapon in international litigation. This is especially true in intellectual property litigation, where provisional measures are perhaps the most powerful remedies available to the parties", Marta Pertegás Sender, 'Cross-border enforcement of patent rights', Oxford University Press, 2002, pg 127.

⁴⁸² Also because although they are only intended to have a preservative effect, they most probably will be the basis of the final determination of parties' rights, Michael Blakeney, 'Guidebook on Enforcement of Intellectual Property Rights', pg 32, available at:

http://www.delind.cec.eu.int/en/trade/guidebook_enforcement_ipr.pdf.

⁴⁸³ Seize property to recover damage is not available in China as a provisional measure at the moment: "[C]an you implement a favourable decision if you get one? In the future civil litigation will play a serious role in IP protection in China but how to legally identify the defendant's fixed assets so you can implement the decision will be the key to effective civil IP protection," according to Chang, see note 208.

⁴⁸⁴ Civil Procedure Law, adopted by the fourth session of the seventh National People's Congress on 9th April 1991.

absent in article 50 (1a) TRIPs. In contrast, the preliminary execution of article 97 (3) Civil Procedure Law⁴⁸⁵ states implicitly that an occurring infringement can be stopped too, and so do the articles 49 Copyright Law⁴⁸⁶, 57 Trademark Law⁴⁸⁷ and 61 Patent Law^{488 489}, explicitly. In order to achieve prevention of infringement the relevant provisional measures may include the seizure of property with which for example the alleged infringing goods are manufactured. On the other hand, the scope of article 50 (1a) TRIPs is broader than article 97 (3) Civil Procedure, since the latter provision can only be applied in urgent⁴⁹⁰ circumstances⁴⁹¹. Without a decision on the merits of the case, the provisional measures need some conditions that can legitimise such an invasive measure for the defendant. The conditions under which the provision of article 97 (3) Civil

⁴⁸⁵ Article 97 Civil Procedure law: In the following cases, the people's court may make a ruling for prior execution in accordance with the litigant's request: (3) Other urgent circumstances that require prior execution.

⁴⁸⁶ Article 49 Copyright Law: A copyright owner or owner of a copyright-related right who has evidence to establish that another person is committing or will commit an act of infringing his right, which could cause irreparable injury to his legitimate rights and interests if the act is not stopped immediately, may apply to the People's Court for ordering cessation of the related act and for taking the measures for property preservation before instituting legal proceedings. The provisions of Articles 93 to 96 and 99 of the Civil Procedure Law of the People's Republic of China shall apply when the People's Court handles the application referred to in the preceding paragraph.

⁴⁸⁷ Article 57 Trademark Law: Where a trademark registrant or interested party who has evidence to show that another person is committing or will commit an infringement of the right to use its or his registered trademark, and that failure to promptly stop the infringement will cause irreparable damages to its or his legitimate rights and interests, it or he may file an application with the People's Court to order cessation of the relevant act and to take measures for property preservation before instituting legal proceedings in the People's Court. The People's Court handling the application under the preceding paragraph shall apply the provisions of Articles 93 to 96 and 99 of the Civil Procedure Law of the People's Republic of China.

⁴⁸⁸ Article 61 Patent Law: Where any patentee or interested party has evidence to prove that another person is infringing or will soon infringe its or his patent right and that if such infringing act is not checked or prevented from occurring in time, it is likely to cause irreparable harm to it or him, it or he may, before any legal proceedings are instituted, request the people's court to adopt measures for ordering the suspension of relevant acts and the preservation of property. The people's court, when dealing with the request mentioned in the preceding paragraph, shall apply the provisions of Article 93 through Article 96 and of Article 99 of the Civil Procedure Law of the People's Republic of China.

⁴⁸⁹ According to Zhang, there was a general misunderstanding among attorneys that a preliminary injunction in patent cases was not available, which was clarified by article 61 Patent Law. Zhang, see note 87, pg 59.

⁴⁹⁰ Urgency applies if the immediate termination of the infringement, the immediate elimination of obstacles or the immediate ceasing of a particular action is necessary, article 107 Opinion of the Supreme People's Court concerning a Number of Questions on the Application of the Civil Procedure Act 1992. Liu Xiaohai, 'Enforcement of Intellectual Property Rights in the People's Republic of China', IIC Vol. 32, February 2001, pg 144, footnote 13.

⁴⁹¹ Supreme People's Court Directive on the Implementation of the Civil Procedure Law, paragraph 107, July 14, 1992) construing the "urgent circumstances" provided by article 252 (3) Civil Procedure Law and stating that urgent circumstances include cases in which certain activities need to be stopped immediately. Zhang, see note 87, pg 59, footnote 265.

Procedure Law can be granted to the petitioner are summed up in two paragraphs in article 98 Civil Procedure Law. One prerequisite is that it is clear who the litigants are and that the applicant's livelihood or business operation would be seriously affected if no prior execution is enforced⁴⁹². The other condition is that the applying party is capable of fulfilling the ruling. The granting of preliminary injunctions is a relatively new feature in the Chinese legal system and is yet underutilised and difficult to obtain⁴⁹³. On the other hand, the reluctance to grant preliminary injunctions is not so strange, because the unemployment that results from the closing down of operations could lead to social unrest.

The purpose of article 50 (1b) TRIPs, to preserve relevant evidence is eclipsed by article 93 Civil Procedure Law⁴⁹⁴, which stipulates custody of property. Custody of property includes sequestration⁴⁹⁵, attachment⁴⁹⁶, and freezing of the alleged infringing products. Article 94 (2) Civil Procedure Law: Property preservation shall be carried out by sealing up, distraining, freezing or other methods as prescribed by law. To achieve preservation of evidence one might also need the remedy of property preservation. However, article 74

⁴⁹² Article 98 (2) Civil Procedure Law.

⁴⁹³ To obtain a preliminary injunction in case of a patent infringement is especially difficult: "(..) the Supreme People's Court recently has tempered any early enthusiasm for the issuance of such injunctions by urging the lower courts to use caution in issuing preliminary injunctions and noting that preliminary injunctions should not be issued in cases involving non-literal infringement or complicated technologies." J. Benjamin Bai, et al., 'United States: Patent Litigation in Chinese Courts', April 2006, available at: http://www.mondaq.com/i_article.asp?articleid=39258&rss=11&shownav=0&login=true&print=1.

⁴⁹⁴ Article 93 Civil Procedure Law: In urgent cases, the party concerned whose interests are at stake, and whose legitimate rights and interests may be damaged beyond remedy if no application for custody of property is filed immediately, may apply for custody of property with the people's court before filing an action. The applicant shall provide a guarantee; where he refuses to do so, his application shall be rejected. Upon accepting a request, the people's court shall make a ruling on measures for custody of property within 48 hours and start execution immediately.

If the applicant fails to file an action within 15 days after the people's court takes measures for custody of property, the people's court shall lift the custody.

⁴⁹⁵ Definition sequestration: The taking of someone's property, voluntarily (by deposit) or involuntarily (by seizure), by court officers into the possession of a third party, awaiting the outcome of a trial in which ownership of that property is at issue. See at: www.leanlegal.com/dictionary/s.asp.

⁴⁹⁶ Definition attachment: The act of taking a person's property into the legal custody of a court for the purpose of serving as security for satisfaction of a judgment which has been filed. The action itself is often called a writ of attachment and serves to create a lien against the property. As a result the property may not be sold free of the attachment unless the attachment has either been satisfied or released. See at: www.virginia-real-estate-online.com/real-estate-terms-A.html.

Civil Procedure Law⁴⁹⁷, which is located in Chapter VI Evidence, deals exclusively with evidence preservation. Article 65 Civil Procedure Law states: “The people's court has the right to acquire evidence from the relevant units and individuals, and they shall not refuse it.” However, article 65 Civil Procedure Law that empowers a court to seek evidence from any relevant party, is seldom used. A more frequently used procedure in patent litigation is evidence preservation, as provided under Article 74 Civil Procedure Law. Participants in the proceedings may apply for this measure or the court can take such measures on its own initiative. Article 93 Civil Procedure Law is narrower in scope than article 50 (1b) TRIPs, because it can only be applied in urgent cases. The possibility of a pre-trial evidence preservation measure is explicitly stipulated by article 50 Copyright Law⁴⁹⁸ and article 58 Trademark Law⁴⁹⁹ and article 16⁵⁰⁰ Several Provisions of the Supreme People's Court for the Application of Law^{501 502} (Pre-trial Cessation of Patent

⁴⁹⁷ Article 74 Civil Procedure Law: Under circumstances where there is a likelihood that evidence may cease to exist or be lost or difficult to obtain later on, the participants in proceedings may apply to the people's court for the evidence to be preserved, the people's court may also take measures to preserve such evidence on its own initiative.

⁴⁹⁸ Article 50 Copyright Law: Article 50 For the purpose of preventing an infringing act and under the circumstance where the evidence could be lost or is difficult to obtain afterwards, the copyright owner or the owner of a copyright-related right may apply to the People's Court for evidence preservation before initiating legal proceedings. The People's Court must make the decision within forty-eight hours after it accepts an application; the measures of preservation shall be taken without delay if it is decided to do so. The People's Court may order the applicant to provide a guaranty, if the latter fails to do so, the Court shall reject the application. Where the applicant fails to institute legal proceedings within fifteen days after the People's Court adopted the measures of preservation, the latter shall terminate the measures of preservation.

⁴⁹⁹ Article 58 Trademark Law: In order to stop an infringing act, any trademark registrant or interested party may file an application with the People's Court for preservation of the evidence before instituting legal proceedings in the People's Court where the evidence will possibly be destroyed or lost or difficult to be obtained again in the future. The People's Court must make adjudication within forty-eight hours after receipt of the application; where it is decided to take the preservative measures, the measures shall be executed immediately. The People's Court may order the applicant to place guaranty; where the applicant fails to place the guaranty, the application shall be rejected. Where the applicant institutes no legal proceedings within fifteen days after the People's Court takes the preservative measures, the People's Court shall release the measures taken for the preservation.

⁵⁰⁰ Article 16 Pre-trial Cessation of Patent Infringement: When executing the pre-trial measure to cease the act of patent infringement, the people's court may, according to the application of the interested party, simultaneously preserve the evidence in the light of the provision of Article 74 of the Civil Procedure Law. The people's court may, according to the application of the interested party, preserve the property pursuant to Articles 92 and 93 of the Civil Procedure Law.

⁵⁰¹ On June 5, 2001, the adjudication committee of the Supreme People's Court passed the judicial interpretation on questions regarding to applicable laws for pre-trial deterring of patent infringement, in its No. 1179 committee meeting and made it effective on July 1, 2001, available at: <http://www.chinantd.com/news.php?language=en&channel=65&id=84>.

Infringement) and the Interpretation by the Supreme People's Court of the Issues Relating to Application of Law to Pre-trial Suspension of Acts of Infringement of Exclusive Right to Use Trademarks and to Evidence Preservation⁵⁰³ (Pre-trial Cessation of Trademark Infringement/Evidence Preservation). Article 61 Patent Law stipulates next to the provisional measures for ordering the suspension of relevant acts, the preservation of property. There is no judicial interpretation to clarify the evidence preservation and preliminary execution measures for copyright⁵⁰⁴. Article 95 Civil Procedure Law gives the applicant against whom the application is made the possibility to cancel the property preservation if he provides a security. Thus weakening the effectiveness of article 93 Civil Procedure Law⁵⁰⁵. However, in case of preliminary execution this is prohibited by article 8 Pre-trial Cessation of Patent Infringement⁵⁰⁶ and article 8 Pre-trial Cessation of Trademark Infringement/Evidence Preservation⁵⁰⁷.

A difference in scope between article 50 (1a) TRIPs and article 97 (3) Civil Procedure Law⁵⁰⁸ is that the latter clearly excludes the possibility of ex officio anticipated enforcement. Such a phrase is absent in article 50 (1a) TRIPs, suggesting that courts too can initiate anticipated enforcement. The same counts for article 50 (1b) TRIPs. However,

⁵⁰² Jiang Zhipei is elaborating on the implementation of this judicial interpretation. Jiang Zhipei, 'Implementing Pre-Trial Provisional Judicial Measure for Strengthening Protection of Patent Right', 2001, available at: <http://www.chinaipr.com/english/laws/laws6.htm>.

⁵⁰³ In the Committee Meeting No. 1203 on December 2001, the Adjudication Committee of the Supreme People's Court passed the Judicial Interpretation on Questions Regarding to Applicable Laws for Pre-trial Detering of Trademark infringement and Evidence Preservation: the Judicial Interpretation on Questions Regarding to Jurisdiction and Applicable Laws for Trademark Dispute and issued them on January 9, 2002.

⁵⁰⁴ The Supreme People's Court has decreed that the interpretation will also be applicable in copyright cases, Baker & McKenzie, 'Intellectual Property Guide: China 2004', pg 57.

⁵⁰⁵ The reasonableness of the application of article 95 Civil Procedure Law could depend on the height of the security, loss of production in case of property preservation, and the probability of the infringement.

⁵⁰⁶ Article 8 Pre-trial Cessation of Patent Infringement: Any measures taken to execute the ruling to cease the act of patent infringement shall not be removed because the party against whom the application is filed provides a counter-guaranty.

⁵⁰⁷ Article 8 Pre-trial Cessation of Trademark Infringement/Evidence Preservation: Article 8 The measure adopted in adjudication on suspension of an act of infringement of exclusive right to use trademark shall not be cancelled because of the provision of guaranty by the respondent, except that the applicant otherwise agrees.

⁵⁰⁸ Article 97 Civil Procedure Law: The people's court may, at the request of the parties, order preliminary execution in respect to the following cases. (3): those involving urgent circumstances that require preliminary execution.

article 92 Civil Procedure Law⁵⁰⁹ explicitly gives the possibility of the court to adopt an order for property preservation in the absence of a request by an interested party. Also, article 74 Civil Procedure Law states that the people's court may also take measures to preserve evidence on its own initiative.

The opening words of article 50 (1) TRIPs state that prompt and effective provisional measures can be ordered. Article 93 Civil Procedure Law is more specific and gives a condition for the court upon accepting a request for property preservation to make a ruling within 48 hours and start executing immediately.

Article 15 Pre-trial Cessation of Patent Infringement and article 15 Pre-trial Cessation of Trademark Infringement/Evidence Preservation emphasise the importance of an effective and prompt execution of the pre-trial cessation of intellectual property rights, the respective judicial interpretations state that any conduct violating the provisional measure will be punished according to article 102 Civil Procedure Law ranging from a fine to personal detention. If such conduct constitutes a criminal offence, it will be punished accordingly by Criminal Law.

XXI: Article 50 (2) TRIPs

One of the principles of law is that the court hears both parties. However, article 50 (2) TRIPs prescribes provisional measures *inaudita altera parte*⁵¹⁰, where appropriate. This makes sense, because when a defendant is informed that he will be heard, he might destroy the evidence. Articles 97 and 98 Civil Procedure Law remain silent about whether a preliminary execution can be enforced without a judicial hearing.

⁵⁰⁹ Article 92 Civil Procedure Law: (...) the people's court may, at the request of the other party, order that property preservation be adopted. In the absence of such request, the people's court may, when necessary, also order to adopt property preservation measures.

⁵¹⁰ Translation: Without prior hearing of the other side.

By imposing prior execution to discontinue an alleged infringement without judicial hearing, the Intermediate People's Court of Shanghai⁵¹¹ showed the danger this can cause to the real injured party. After that, the Supreme People's Court came with provisions⁵¹² that explained its position on hearings and decisions on commercial disputes. Article 50 (2) TRIPs gives two examples of situations where it deems provisional measures are appropriate⁵¹³.

XXII: Article 50 (3) TRIPs

Article 50 (3) TRIPs states that the applicant should prove that he is the right holder and that his right is being infringed or this is imminent. The applicant should provide a security to protect the defendant and to prevent abuse. Article 93 Civil Procedure Law deals with custody of property: "The applicant shall provide a guarantee; where he refuses to do so, his application shall be rejected." Conform article 50 (3) TRIPs, article 6 of both the Pre-trial Cessation of Patent Infringement and the Pre-trial Cessation of Trademark Infringement/Evidence Preservation require a deposit of guarantee when requesting a patent infringement provisional measure, as well as the factors that need to be considered when deciding the amount of a guarantee⁵¹⁴.

XXIII: Article 50 (4) TRIPs

Article 50 (4) TRIPs conveys that in case of *inaudita altera parte*, parties affected shall be given notice without delay after the execution of the measures. According to article 93 (2) Civil Procedure Law and article 9 Pre-trial Cessation of Patent Infringement it is required that the people's court shall make a decision in written within 48 hours from receiving

⁵¹¹ Liu, see note 92, pg 145, footnote 18.

⁵¹² Liu, see note 92, pg 145, footnote 19.

⁵¹³ Article 50 (2) TRIPs: "(...) where any delay is likely to cause irreparable harm to the right holder, or where there is a demonstrable risk of evidence being destroyed".

⁵¹⁴ Part of article 6 Pre-trial Cessation of Patent Infringement: "(...) When the people's court determines the scope of the guaranty, it shall take account of the sales turnover of the product in question and the reasonable costs of storage and stock-keeping; of the losses that may be caused by ceasing the relevant act of the party against whom the application is filed and other reasonable costs, such as the wages or salaries and of any other factors involved as well.

the request for a provisional measure. Article 9 (2) Pre-trial Cessation of Patent Infringement states that the people's court shall notify the affected party no later than 5 days from the date of grant provisional measures. This 5 days lap reflects the spirit of TRIPs regarding the *inaudita altera parte* decision on provisional measures.

The third sentence of article 94 Civil Procedure Law states: "After the people's court freezes a property, it shall notify the person against whom the application is made." An equivalent for preliminary execution does not exist. Article 50 (4) TRIPs gives the possibility of a review, including a right to be heard. This shall take place upon request of the defendant, within a reasonable period. Article 99 Civil Procedure Law gives the party that is not satisfied with the order on property preservation or preliminary execution the possibility to apply for reconsideration which could be granted only once. Implementation of the order shall not be suspended during the time of reconsideration.

According to article 10 Pre-trial Cessation of Patent Infringement⁵¹⁵, the party who is not satisfied with the decision on preliminary execution is entitled a review of the relevant decision. Within 10 days of receiving the relevant decision, the relevant party may file petition for review once. The decision on preliminary execution shall not be terminated or suspended by the review procedure. Article 11 Pre-trial Cessation of Patent Infringement provides criteria for ensuring the uniformity of the reviewing standard. The Supreme People's Court set up four factors⁵¹⁶. Factors 2 and 4 are: "without provisional measure, the infringement causes irreparable harm," and "if the public interest will be harmed," respectively. One could argue that these criteria make it more difficult for patentees to be granted with a provisional measure so that it transcends TRIPs' purpose. Article 50 (4) TRIPs remains silent about any substantive criteria for a review. However, according to Zhang⁵¹⁷ the court will in practice consider only two factors in determining whether to

⁵¹⁵ Article 10 Pre-trial Cessation of Patent Infringement: Any interested party who is not satisfied with the adjudication on pre-trial suspension of an act of infringement of exclusive right to use trademark may make one application for reconsideration within ten days from the date of receipt of the adjudication. The enforcement of the adjudication shall not be suspended during the reconsideration.

⁵¹⁶ 1. If alleged infringer's conduct consists of patent infringement; 2. Without provisional measure, the infringement causes irreparable harm; 3. If applicant for provisional measure deposit appropriate guarantee; 4. If the public interest will be harmed.

⁵¹⁷ Zhang, see note 87, pg 1

adopt the property preservation or preliminary execution measures: 1. the probability of the applicant winning the case; 2. the irreparable harm to the patent owner absent those measures.

XXIV: Article 50 (5) TRIPs

Article 50 (5) TRIPs states that the applicant may be required to supply other information for the identification of the goods concerned. The articles 4 (3) Pre-trial Cessation Patent Infringement⁵¹⁸ and 4 Pre-trial Cessation of Trademark Infringement/Evidence Preservation⁵¹⁹ elaborate on this.

XXV: Article 50 (6) TRIPs

Article 50 (6) TRIPs prescribes that if no proceedings leading to a decision on the merits of the case are initiated within a reasonable period⁵²⁰, upon request by the defendant, the provisional measures will be revoked or otherwise cease to have effect. Article 93 Civil Procedure Law⁵²¹ gives a more stringent provision to initiate proceedings on the merits of the case within 15 days after the court takes measures for custody of property. Article 12 Pre-trial Cessation of Patent Infringement clarifies that also where the court takes the measure to cease the relevant act, the patentee or interested party should initiate legal

⁵¹⁸ Article 4 (3) Pre-trial Cessation Patent Infringement: Evidence shall be submitted to prove that the party against whom an application is filed is committing or will commit an act of infringing its or his patent right, including proofs of the allegedly infringing product and the reference material comparing the technical features of the patented technology and the allegedly infringing product.

⁵¹⁹ Article 4 Pre-trial Cessation of Trademark Infringement/Evidence Preservation: When filing the application for ordering pre-trial suspension of acts of infringement of exclusive right to use trademark, the applicant shall submit the following evidence:

(1) The trademark registrant shall submit the Certificate of Trademark Registration, and the interested party shall submit the trademark licensing contract, documents submitted for filing with the Trademark Office and a copy of the Certificate of Trademark Registration; where an exclusive licensee of registered trademark licensing contract files an application, it or he shall submit proof that the trademark registrant has waived application; where an heir of the property right in a registered trademark files an application, it or he shall submit proof of its or his inheritance or ongoing inheritance.

(2) Evidence attesting that the respondent is executing or is going to execute the act of infringement of the exclusive right to use the registered trademark, including the accused infringing goods.

⁵²⁰ Article 50 (6) TRIPs: (..), not to exceed 20 working days or 31 calendar days, whichever is the longer.

⁵²¹ Article 93 Civil Procedure Law: If the applicant fails to file an action within 15 days after the people's court takes measures for custody of property, the people's court shall lift the custody.

proceedings within 15 days or the adopted measure shall be removed from the ruling. The equivalent for trademarks can be found in article 12 Pre-trial Cessation of Trademark Infringement/Evidence Preservation.

XXVI: Article 50 (7) TRIPs

Article 50 (7) TRIPs conveys that if the provisional measures are revoked or where they lapse due to any act or omission by the applicant, or where it is found that there has been no infringement or threat of infringement, the judicial authorities shall have the authority to order the applicant, upon request by the defendant, to provide the defendant appropriate compensation for any injury caused by these measures. This obligation concerning property preservation can be found in article 96 Civil Procedure Law⁵²² which offers compensation for losses. Article 13 Pre-trial Cessation Patent Infringement states that the party against whom the application is filed may institute legal proceedings in the people's court having the jurisdiction, requesting the applicant to compensate for the losses; or file a request for damages during the patent infringement litigation instituted by the patentee or interested party. The people's court may simultaneously handle the requests. The equivalent can be found for trademarks in article 13 Pre-trial Cessation of Trademark Infringement/Evidence.

Chapter 4 Border Measures of TRIPs

XXVII: Article 51 TRIPs

Article 51 TRIPs obliges members only to adopt procedures to suspend counterfeit and pirated goods destined for import⁵²³. However, China makes use⁵²⁴ of the optional

⁵²² Article 96 Civil Procedure Law: If the application is wrongfully made, the applicant shall compensate the person against whom the application is made for any loss incurred from property preservation.

⁵²³ Note 13 in the first sentence of article 51 TRIPs: It is understood that there shall be no obligation to apply such procedures to imports of goods put on the market in another country by or with the consent of the right holder, or to goods in transit.

⁵²⁴ Article 44 Customs Law 2001 states: Customs may carry out protection of intellectual property rights, which are related to import and export goods according to laws and regulations. (...). The Customs Law was adopted July 8, 2000, effective January 1, 2001. Under the preceding Customs Law, adopted January 22,

provision in the last sentence of article 51 TRIPs⁵²⁵ to provide for corresponding procedures to suspend infringing goods destined for exportation⁵²⁶. If one interprets ‘corresponding procedures’ narrowly it might be understood as referring to procedures for infringing goods destined for import that have the same function and objective, namely the suspension of the release into the free circulation of such goods. If one interprets the term broader, it might not only refer to the similar function and objective, but also to the following TRIPs provisions, that are implicitly applicable to infringing goods destined for export⁵²⁷. This author explores the broader interpretation below.

XXVIII: Article 52 TRIPs

Article 52 TRIPs promulgates that the right holder can initiate procedures that can lead to the suspension of release into the free circulation of goods suspected of infringement, as long as it provides adequate evidence to satisfy the competent authorities, under the laws of the country of importation. The goods suspected of infringement destined for export in China, are another country’s goods destined for import. So, according to TRIPs, China has to apply the laws of the country that is importing the goods to decide whether the evidence results in a prima facie infringement. Besides, article 52 TRIPs requires right holders to provide a detailed description of the goods to make them readily recognisable by the customs authorities. However, the Regulations on Customs Protection of 1995⁵²⁸ (Regulations 1995) had another condition before the customs could detain allegedly

1987 at the 19th session of the Standing Committee of the 6th National People’s Congress, the scope of customs also extended to import and export. Article 4 (1) Customs Law, refers to both import and export as inbound and outbound means of transport.

⁵²⁵ Article 51 TRIPs, last sentence: Members may also provide for corresponding procedures concerning the suspension by the customs authorities of the release of infringing goods destined for exportation from their territories.

⁵²⁶ It makes sense that customs can deal with infringed goods whether they are destined for import, export or in transit. If customs would not take action against infringing goods destined for export, it would not express the will to fight home bred counterfeit and pirated goods and pass the responsibility to deal with it on to foreign customs. Besides, such a customs would function de facto as launching pads for cross-border trademark counterfeiters and copyright pirates, and smugglers, since the destination of the goods can be changed while on sea. World Customs Organization, ‘To Implement Fair And Effective Border Measures Consistent With The Agreement On Trade-related Aspects of Intellectual Property Rights (revision of 1995)’, 2001, pg 4, available at: <http://www.wcoipr.org/wcoipr/gfx/ModelLawfinal.doc>.

⁵²⁷ Articles 52 and 54 TRIPs refer directly to article 51 TRIPs, making the applicability to goods destined for export explicit. The other articles of Part III section 4 remain silent on this.

⁵²⁸ Regulations regarding customs protection of IPR of the PRC of July 5, 1995.

infringing goods: recordation at the General Administration of Customs⁵²⁹. This condition is not mentioned in TRIPs and demands more effort from the right holder to protect his rights and could be seen as non-compliant with TRIPs⁵³⁰. Regulation on Customs Protection in 2003⁵³¹ (Regulations 2003) amended its predecessor from 1995 by abolishing the condition of recordation.

XXIX: Article 53 TRIPs

Article 14 Regulations 1995 stated: “If an applicant requests customs detention of goods suspected to be infringing, he shall submit a security equal to C.I.F. price⁵³² of the imported goods or the F.O.B. price⁵³³ of the exported goods. This requirement conflicts with article 53 (1) TRIPs which states that such security or equivalent assurance should be sufficient to protect the defendant, the competent authorities and to prevent abuse, but shall not unreasonably deter recourse to these procedures. It is plausible that a security that exceeds the value of the goods is deterring recourse to customs procedures. However, Regulations 2003 changed its article 14, so that the value of the goods is the upper limit a right owner should submit in case he wants customs to detain suspected goods⁵³⁴. One

⁵²⁹ Right holders requesting customs to initiate procedures must first record their rights, according to articles 6 and 15 Regulations 1995.

⁵³⁰ However, as set forth below, recordation can have indispensable advantages.

⁵³¹ Regulations of the People's Republic of China on Customs Protection of IPRs (Regulations 2003), December, 2, 2003, regarding customs protection of IPR of the PRC (entered into force on March 1, 2004), amending the Regulations regarding customs protection of IPR of the PRC of July 5, 1995.

⁵³² 1993 System of National Accounts: The C.I.F. price (i.e. cost, insurance and freight price) is the price of a good delivered at the frontier of the importing country, including any insurance and freight charges incurred to that point, or the price of a service delivered to a resident, before the payment of any import duties or other taxes on imports or trade and transport margins within the country. OECD, ‘Glossary of Statistical Terms’, see at: <http://stats.oecd.org/glossary/detail.asp?ID=332>.

⁵³³ 1993 System of National Accounts: The F.O.B. price (i.e. cost, insurance and freight price) is the price of a good delivered at the frontier of the importing country, including any insurance and freight charges incurred to that point, or the price of a service delivered to a resident, before the payment of any import duties or other taxes on imports or trade and transport margins within the country. OECD, ‘Glossary of Statistical Terms’, see at: <http://stats.oecd.org/glossary/detail.asp?ID=332>.

⁵³⁴ 1993 System of National Accounts: The F.O.B. price (free on board price) of exports and imports of goods is the market value of the goods at the point of uniform valuation, (the customs frontier of the economy from which they are exported); it is equal to the C.I.F. price less the costs of transportation and insurance charges, between the customs frontier of the exporting (importing) country and that of the importing (exporting) country, see at: <http://stats.oecd.org/glossary/detail.asp?ID=1009>.

⁵³⁵ Article 14 Regulations 2003: “[...] where the owner of the IPR request customs to detain the suspected infringing goods, he shall submit to customs an assurance not exceeding the value of the goods.”

can criticise the maximum of 100 percent of the value of the goods⁵³⁵ and the range between 0 to 100 percent, pursuant to article 22 Measures of the General Administration of Customs for the Implementation of the Regulation on Customs Protection of IPR⁵³⁶ (Implementation Regulation 2004), which leaves room for legal insecurity. Another objection could be the expenses of long term storage, up to three months, during the pendency of legal actions which will have to be paid by the right holder. The argument against this is that these costs tie up revenues of the right holder and this might deter them to apply for detention of goods. Trainer⁵³⁷ was disappointed that the Implementation Regulation 2004⁵³⁸ still requires the right holder to cover the costs of storage and disposal up to three months. However, the second paragraph of article 25 Regulations 2003 mitigates this problem somewhat: “Where the detained goods are confirmed to infringe intellectual property right, the right owner may add the fees above to the reasonable expense incurred to stop infringing acts.”

Article 53 (2) TRIPs states that only the goods involving industrial designs, patents, layout-designs or undisclosed information whose release into free circulation has been suspended, are, under certain circumstances⁵³⁹, eligible for a counter-bond⁵⁴⁰. Despite the exclusivity of the enumerated intellectual property rights in TRIPs, article 2 Regulations

⁵³⁵ Chris Israel’s recommendation that China should reinstate provisions in its Customs regulations to allow for fines up to 100 percent of the value of the seized goods, was realised. Israel, see note 342, pg 8.

⁵³⁶ Measures of the General Administration of Customs for the Implementation of the Regulation of the People’s Republic of China on the Customs Protection of Intellectual Property Rights, effective July 1, 2004, available at:

http://beijing.lehmanlaw.com/lib/library/Laws_regulations/coustron_import/measure_adm2004.htm.

⁵³⁷ Timothy Trainer, ‘Submission of the International AntiCounterfeiting Coalition, Inc. to the US Trade Representative, Special 301 Recommendation’, February 11, 2005, pg 29, available at:

http://www.iacc.org/resources/2005_USTR_Special_301.pdf.

⁵³⁸ Article 31 Customs Implementation Regulation 2004 states paraphrased that where customs assists in the enforcement of an injunction, property preservation or confiscating the infringing goods, the intellectual property right holders shall pay for such fees as the storage, preservation and disposal of goods during the period when such goods are detained by the customs, up to three months from the date of serving the decision on confiscation of the infringing goods to the consignees or consignors. If the failure is not caused due to the application of the consignees or consignors for administrative reconsideration, lodging of an administrative litigation or disposal of goods, or other special reasons.

⁵³⁹ Certain circumstances that make a counter-bond possible, pursuant to Article 53 (2) TRIPs: the suspension by customs authorities is on the basis of a decision other than by a judicial or other independent authority, the period provided for in article 55 TRIPs has expired without the granting of provisional relief by the duly empowered authority and all other conditions for importation have been complied with.

⁵⁴⁰ A counter-bond (bail bond) is a security posted by the owner, importer, or consignee in order to release the detained goods alleged to infringe patent rights in an amount sufficient to protect the right holder for any infringement, as defined in article 53 (3) TRIPs.

1995 made the counter-bond as mentioned in article 19 Regulations 1995 applicable to trademark rights and copyrights. The non-conformity with TRIPs' obligation was corrected by article 19 Regulations 2003, which restricts the applicability of a counter-bond to patent rights⁵⁴¹. Article 19 Regulations 1995 states that a counter-bond is twice the C.I.F. price of the imported goods, or twice the F.O.B. price of exported goods. Pursuant to article 53 (2) TRIPs the counter-bond should have a level that is sufficient for any infringement. Sufficient is when it shall not unreasonably deter recourse to these procedures, in accordance with article 53 (1) TRIPs. It could be argued that this is not the case when a counter-bond has the value of twice the C.I.F. or F.O.B. price. Article 19 Regulations 2003, changed this into an amount sufficient to protect the right holder for any infringement, according to article 53 (2) TRIPs and equals the amount of article 14 Regulations 2003. It is only fair that the height of the security is equal for both bond and counter-bond, plaintiff and defendant.

XXX: Article 54 TRIPs

The equivalent of the notice of suspension of the release of goods to the importer and the applicant as article 54 TRIPs requires, can be found in the articles 15⁵⁴² and 16⁵⁴³ Regulations 2003.

⁵⁴¹ Patent rights in China include patents for inventions, utility models and designs.

⁵⁴² Article 15 Regulations 2003: Where the right owner applies to detain the suspected goods in accordance with Article 13 of these Regulations and submit the guarantee according to Article 14 of these Regulations, Customs shall detain the suspected goods, notify the right owner in writing and send the detention receipt to the consignees or consignors. Where the application to detain the suspected goods filed by the right owner does not comply with the Article 13 of these Regulations or the right owner does not submit the guarantee according to the Article 14 of these Regulations, Customs shall reject the application and notify the right owner in writing.

⁵⁴³ Article 16 Regulations 2003: Customs shall notify the right owner immediately when they discover the goods suspected to infringe recorded intellectual property rights. Where the right owner files an application according to Article 13 of these Regulations within three business days after he receives the notice from Customs and submits the guarantee according to Article 14 of these Regulations, Customs shall detain the suspected goods and send the detention receipt to the consignees or consignors. Where the right owner fails to file the application or submit the guarantee within the time limit, Customs shall not detain the goods.

XXXI: Article 55 TRIPs

Article 55 TRIPs⁵⁴⁴ is the border protection equivalent of article 50 (6) TRIPs. Article 55 TRIPs states that after 10 days the goods in detention shall be released if the applicant was notified of the suspension and the customs have not been informed that another party than the defendant, has been initiating proceedings leading to a decision on the merits of the case; or that the court has taken provisional measures prolonging the suspension of the release of the goods. In appropriate cases, this time-limit may be extended by another 10 working days. So the duration of suspension has a limit of a maximum of twenty working days.

China's customs regulations prescribe that customs shall release the goods, within 20 working days, if the right holder has applied for this suspension, pursuant to article 15 (1) Regulations 2003⁵⁴⁵, and the court has not been informed that another party than the defendant has initiated proceedings leading to a decision on the merits of the case, pursuant to article 24 (1) Regulations 2003⁵⁴⁶. So this is compliant to article 55 TRIPs.

Article 20 Regulations 2003⁵⁴⁷ states that the goods that are suspended upon the right holder's request shall be released within thirty days⁵⁴⁸ if they have not been found to

⁵⁴⁴ Article 55 TRIPs explicitly refers to other conditions for importation or exportation, making it applicable to export.

⁵⁴⁵ Article 15 Regulations 2003: Where the right owner applies to detain the suspected goods in accordance with Article 13 of these Regulations and submit the guarantee according to Article 14 of these Regulations, Customs shall detain the suspected goods, notify the right owner in writing and send the detention receipt to the consignees or consignors.

⁵⁴⁶ Article 24 (1) Regulations where Customs have detained the suspected goods according to Article 15 of these Regulations and have not received a notice of assistance on execution from the People's Court within twenty business days from the date of detention.

⁵⁴⁷ Article 20 Regulations 2003: Where the right owner requests customs to detain the suspected goods after customs find the imported or exported goods infringing recorded intellectual property right and notify the right owner, the customs shall initiate the investigation and confirmation on the goods whether to infringe intellectual property rights or not within thirty business days from the date of their detention. Where it cannot be confirmed, customs shall notify the right owner in writing immediately.

⁵⁴⁸ Regulations 2003 have decreased the investigative burden of customs considerably in comparison to Regulations 1995. Article 20 Regulations 1995 stated that if customs detained goods at the right holder's request, pursuant to article 17 Regulations 1995 or on their own initiative, pursuant to article 18 Regulations 1995, the investigation had to commence within 15 days of detention. Customs had to conduct the investigation, unless circumstances appeared customs may release the goods, pursuant to article 22

infringe intellectual property rights. It is TRIPs compliant, because it is implied here that the court has been informed that another party than the defendant has initiated proceedings leading to a decision on the merits of the case.

The fifty day time-limit of article 24 (2) Regulations 2003⁵⁴⁹ is TRIPs compliant, because article 50 (6) TRIPs states that after provisional measures are taken proceedings leading to a decision on the merits of the case shall be initiated within 30 days (in fact 31 days), followed by twenty days⁵⁵⁰ before the party other than the defendant has initiated proceedings leading to a decision on the merits of the case, before customs will release the suspended goods if no infringement was found. Regulations 2003 removes the uncertainty of previous regulations about whether patent cases required a preliminary investigation or a substantive investigation similar to that practised at the patent office. According to Yu Xiang, the latter would have overstrained customs' capabilities, the former would have led to administrative decisions based on insufficient evidence and therefore easily contestable in an administrative lawsuit⁵⁵¹.

TRIPs does not say anything about an obligation for a consignor or consignee to substantiate objections to detain goods. However, article 18 Regulations 2003 requires this⁵⁵². This is a change in comparison to the Regulations 1995, where the consignor or

Regulations 1995, and even when the court investigated and determined infringements, customs would have confiscated the goods, pursuant to article 23 Regulations 1995.

⁵⁴⁹ Article 24 Regulations 2003: In any of the following situations, Customs shall release the suspected goods that are detained (2): where Customs have detained the suspected goods according to Article 16 of these Regulations and have not received the notice of assistance on execution from the People's Court within fifty business days from the date of detention, and they can not confirm that the detained goods have infringed intellectual property right after investigation (..).

⁵⁵⁰ Article 24 (1) Regulations 2003 states that customs shall release the suspected goods where customs have detained the suspected goods at the request of the right holder and have not received a notice of assistance on execution from the People's Court within twenty business days from the date of detention. So when a detention is at the initiative of a right holder, the customs is relieved of any obligation to investigate. This task is reserved to the courts. This may help the procedural economy of customs and avoid stretching the expertise of customs which increases the risk of losing an administrative lawsuit, especially in the case of investigating patents.

⁵⁵¹ Yu Xiang, 'The New Regulations Regarding Customs Protection of Intellectual Property Rights of the People's Republic of China', IIC volume 36, July, 2005, pg 838.

⁵⁵² Article 18 Regulations 2003: Where the consignee or consignor holds that his goods do not infringe the intellectual property right of the owner of the intellectual property right, he shall submit to customs a written explanation accompanied by the relevant evidence.

consignee could stop customs investigation by filing an objection⁵⁵³. If the right holder wanted to prevent the goods to be released, he had to file an administrative or judicial infringement suit⁵⁵⁴. This procedure had to be done, even in obvious cases where customs could easily determine infringements.

But what if a right holder does not want to prevent the release of detained goods? Article 22 Regulations 1995 offered this possibility if the right holder chooses to relinquish customs protection⁵⁵⁵. This could be a profitable practice for right holders⁵⁵⁶. In TRIPs there is no explicit obligation to allow right holders to withdraw customs protection. However, the preamble recognises that intellectual property rights are private rights⁵⁵⁷. The preamble also recognises the underlying public objectives of national systems for the protection of intellectual property, including developmental and technological objectives⁵⁵⁸. One could argue a public objective of all national systems is to reduce trade distortions and impediments caused by intellectual property infringements. In this case private gains have to give way for the interests of the public. So it is in the spirit of TRIPs that the possibility to relinquish customs protection can nowhere be found in the Regulations 2003.

⁵⁵³ Article 17 Regulations 1995 state that consignees or consignors claiming that imported or exported goods do not infringe on the intellectual property rights of the applicant shall, within 7 days of being served the Customs Detention Receipt, file a written objection explaining related circumstances.

⁵⁵⁴ Article 17 Regulations 1995 states that the applicant shall have the right to apply to the appropriate intellectual property rights protection agency requesting that said agency deal with the infringement dispute, or otherwise take action concerning the dispute in the people's court within 15 days from the date the written notification from customs was served in accordance with the first paragraph in this article.

⁵⁵⁵ Article 22 (4): The Customs may release the suspected infringing goods in detention under any of the following circumstances: if the intellectual property rights owner fails to file a reply within the specified period of time, or if the said owner relinquishes Customs protection of intellectual property rights.

⁵⁵⁶ Right holders could negotiate adequate compensation of the consignor or consignee. Yu Xiang gave the example of the Zhangjiagang customs office, that had to release in 2002 thousands of trademark infringing light-focus bulbs worth 280,000 RMB upon such a withdrawal by the trademark owner. Yu, see note 142, pg 839, footnote 8.

⁵⁵⁷ Third clause of the preamble: Recognizing that intellectual property rights are private rights.

⁵⁵⁸ Fourth clause of the preamble: Recognizing that the underlying public policy objectives of national systems for the protection of intellectual property, including developmental and technological objectives.

XXXII: Article 56 TRIPs

Indemnification of the importer, the consignee and of the owner of the goods for any injury caused to them through wrongful detention of goods or through the detention of goods released pursuant to article 55 TRIPs can be found in the second paragraph of article 29 Regulations 2003⁵⁵⁹.

XXXIII: Article 57 TRIPs

The prerequisite of article 57 TRIPs; the right of inspection that should be given to the right holder and the importer, is implemented by article 17 Regulations 2003⁵⁶⁰. The last sentence of article 57 TRIPs is not mandatory; it prescribes that where a positive determination has been made on the merits of the case, the member may inform the right holder of the names and addresses of the consignor, the importer and the consignee and of the quantity of the goods. Its equivalent can be found back in general wording in the second sentence of article 27 Regulations 2003⁵⁶¹. However, this is normally several months after the initial seizure⁵⁶².

XXXIV: Article 58 TRIPs

Article 58 TRIPs⁵⁶³ makes it optional for members to require competent authorities to act on their own initiative and to suspend the release of goods in respect of which they have

⁵⁵⁹ Article 29 (2) Regulations 2003: After the right owner requests Customs to detain the suspected goods, where the Customs can not confirm that the detained goods have infringed the intellectual property rights of the right owner or the People's Court make a judgment that the goods have not infringed the intellectual property right of the right owner, the right owner shall undertake the compensation responsibility in accordance with law.

⁵⁶⁰ Article 17 Regulations 2003: With the consent of customs, the right owner and consignees or consignors may look over the relevant goods.

⁵⁶¹ Second sentence of article 27 Regulations 2003: Customs shall notify the relevant circumstances of the infringing goods to the right owner in writing after confiscation.

⁵⁶² "Chinese customs is happy to provide all the information, with some available upon first notice and the rest (particularly the consignee's name) upon conclusion of the case, which is normally several months after the initial seizure," Joseph Simone, partner Baker & McKenzie Hong Kong in an email reply about his experience, January 26, 2007.

⁵⁶³ If one interprets the last sentence of article 51 TRIPs broadly, it makes article 58 TRIPs also applicable to goods destined for export.

acquired prima facie evidence that an intellectual property right is being infringed. Article 18 Regulations 1995 made use of the optional TRIPs provision that allows for members to require their competent authorities to suspend the release of goods ex officio. However, in practice this competency was hardly used⁵⁶⁴, because of the strained capacity of customs due to the growth of the workload and the oftentimes complex subject matter. Now Regulations 2003 has restricted the ex officio actions of customs: article 16 Regulations 2003 states that customs can only notify the right holder immediately when they discover goods suspected to infringe recorded IPRs. It is up to the right holder to proceed. Recordation gives customs more information about the goods, which in turn may help them with the investigation and determination of infringed goods.

XXXV: Article 60 TRIPs

The de minimis imports provision of article 60 TRIPs is not mandatory. However, it is implemented au contrario in article 28 Regulations 2003: “Where the articles carried or posted in or out the border by an individual are beyond the personal use and the reasonable quantity and have infringed the intellectual property right, customs shall confiscate the articles.”

Chapter 7 Criminal enforcement route

XXXVI: Criminal thresholds

Individual trademark counterfeiters will be criminally penalised if the illegal business volume amount exceeds RMB 50,000⁵⁶⁵ (this thresholds used to be equal or over RMB 100,000⁵⁶⁶) or that of illegal gains exceed RMB 30,000. If more than two brands are

⁵⁶⁴ “[I]n 2002, for example, only four cases are reported in which customs offices investigated and detained goods, which allegedly infringed upon patent rights, including both detentions at their own initiative and upon a right owner’s request.” Yu, see note 142, pg 838.

⁵⁶⁵ Article 1 (1) Interpretation 2004.

⁵⁶⁶ Regulations of the Standards for Prosecuting Economic Criminal Cases Jointly Issued by the Supreme People's Procuratorate and the Ministry of Public Security in 2002.

involved in such cases the thresholds are over RMB 30,000⁵⁶⁷ and RMB 20,000, respectively.

Criminal liability is triggered when individuals sell counterfeit trademarks if the amount of sales exceeds RMB 50,000 (this used to be equal or over RMB 200,000 and in case of illegal gains equal or exceed RMB 20,000, a thresholds that the Interpretation 2004 does not have).

Individuals are criminally liable making counterfeit trademarks, if the amount of illegal business volume is more than RMB 50,000 (this used to be RMB 200,000), or the amount of illegal gains is more than RMB 30,000 (remarkably, this threshold used to be lower in the Prosecution guideline, namely RMB 20,000).

The thresholds for corporate counterfeiters have been reduced to three times from five times the thresholds of individuals⁵⁶⁸ (in the case of illegal business volume this used to be equal or over RMB 500,000⁵⁶⁹). But, even with this lower thresholds, it can be argued that the difference in thresholds between enterprises and individuals is arbitrary⁵⁷⁰. It is relatively easy for a Chinese citizen to start a company, by doing so he can simply avoid operating above the criminal thresholds. For example, a company closed down by administrative measures can be easily superseded, thus making enterprises vehicles for serial infringements. However, if an infringing company is criminally liable, not only can the company be fined, but the persons who are directly in charge in addition to the other persons who are directly responsible for the crime shall be punished, pursuant to article 220 Criminal Law in conjunction with Interpretation 2004. In addition, Joseph Simone states that the thresholds for individuals may be used if the company is a sole proprietorship or its activities are found to focus mainly on counterfeiting⁵⁷¹.

⁵⁶⁷ Article 1 (2) Interpretation 2004.

⁵⁶⁸ Article 15 Interpretation 2004.

⁵⁶⁹ Regulations of the Standards for prosecuting Economic Criminal Cases jointly issued by the Supreme People's Procuratorate and the Ministry of Public Security in 2002.

⁵⁶⁹ The damage done to the right holders is the same, regardless of who commits the crime.

⁵⁶⁹ Joseph Simone, 'New Criminal Liability Standards For IP Crimes', Baker & McKenzie, January 2005, pg1 available here: <http://www.bakernet.com/NR/rdonlyres/19D8796F-48DA-4E53-9B7F-8CCD9480F5D6/38084/1091clientalertnewcriminalliability2.pdf>.

⁵⁷⁰ The damage done to the right holders is the same, regardless of who commits the crime.

⁵⁷¹ Joseph Simone, 'New Criminal Liability Standards For IP Crimes', Baker & McKenzie, January 2005, pg1 available here: <http://www.bakernet.com/NR/rdonlyres/19D8796F-48DA-4E53-9B7F-8CCD9480F5D6/38084/1091clientalertnewcriminalliability2.pdf>.

Criminal liability for mere resellers of counterfeit trademarks may be pursued where the illegal income of the infringer is found to exceed RMB 100,000⁵⁷² (used to be RMB 200,000⁵⁷³) for individual offenders and RMB 300,000 for enterprise offenders.

XXXVII: Trademarks

Producers and vendors of counterfeit trademark representations are subject to criminal sanctions where the amount of representations is more than 20,000⁵⁷⁴ copies (equal of over in the Prosecution guideline). The threshold is 10,000 copies where the infringer deals in two or more brands⁵⁷⁵. Infringers can take this into account and store an amount of trademark representations under the thresholds.

XXXVIII: Copyrights

Individuals engaged in reproductions or high-level distribution of copyright works⁵⁷⁶ are eligible for criminal liability when the illegal business amount exceed RMB 50,000; the infringer's illegal profits exceed RMB 30,000; or if the infringer is found to have dealt in more than 1,000 units⁵⁷⁷. The thresholds for enterprise offenders are three times these thresholds.

XXXIX: Patents

The Criminal Law has no provisions criminalising patent infringements. Provisions for remedies against patent infringements are optional, pursuant to article 61 TRIPs. The exclusion of remedies for patent infringements could be legitimised⁵⁷⁸ by the special

⁵⁷² Article 3B(2) Interpretation 2004.

⁵⁷³ Article 63 Prosecution guideline (Regulations of the Standards for prosecuting Economic Criminal Cases jointly issued by the Supreme People's Procuratorate and the Ministry of Public Security in 2002).

⁵⁷⁴ Article 3A(1) Interpretation 2004.

⁵⁷⁵ Article 3A(2) Interpretation 2004.

⁵⁷⁶ Although the Chinese government has confirmed that the criminal thresholds in the Interpretation 2004 are applicable to sound recordings, this has not lead to any reported criminal case. Israel, see note 342, pg 5.

⁵⁷⁷ Article 5 Interpretation 2004.

⁵⁷⁸ Zhang Qin, deputy director of SIPO argues that "patent infringements cannot be viewed in the same way as stealing a car," since developed countries with more money and better education for R&D pre-empt the

characteristics of patents⁵⁷⁹, which include that most patent infringements are commercial infringements⁵⁸⁰. However, article 216 Criminal Law imposes criminal liability on patent counterfeiting (patent passing off). Interpretation 2004 gives a definition of patent counterfeiting: illegally citing patent numbers on products, packages, advertisements and contracting, or counterfeiting or altering patent notifications⁵⁸¹. The thresholds are the amount of illegal business volume being more than RMB 200,000 or that of illegal gains being more than RMB 100,000 (the only change with the Prosecution guideline is 'equal or more'); causing direct economic loss of more than RMB 500,000 (the only change with the Prosecution guideline is 'equal or more') to the owner of a patent⁵⁸².

XL: Controversial calculation methods

The first method is the price at which such products are actually sold, instead of the price of the genuine products. This creates a situation where infringers reap rewards by selling counterfeit products at a value that is much higher than if they would have to develop and market genuine products on their own, while there is no risk for them to be held accountable for the value of infringed genuine products. Maybe this calculation method may not be seen as an encouragement for infringers, but it could hardly be seen as a deterrent. This calculation method has raised criticism from the Office of the US Trade Representative⁵⁸³ and industry trade groups, such as Quality Brand Protection Committee⁵⁸⁴ that have advocated to use the price of genuine products as a basis for the calculation of illegal income⁵⁸⁵, so far to no avail.

opportunities of developing countries to patent inventions and differences in the substantial law of China with other countries of what is patentable. Emma Barraclough, 'SIPO responds to China's critics', March 2007, available at:

<http://www.managingip.com/Default.asp?Page=10&PUBID=34&ISS=23498&SID=677350&TYPE=3>.

⁵⁷⁹ Patent law definitions are often unclear and drifting.

⁵⁸⁰ Commercial infringement is an infringement in good faith, and lacks intent; invalidation actions are normally retaliated with infringement actions and vice versa; those actions can be seen as side effects of wealth creation.

⁵⁸¹ Article 10 (1-4) Interpretation 2004.

⁵⁸² Article 4 Interpretation 2004.

⁵⁸³ "China uses the value of the infringing products, rather than the value of the genuine goods. According to the US Trade Representative this method highly undervalues the infringing goods and effectively provides a "safe harbor" to infringers", USTR, see note 168, pg 4.

⁵⁸⁴ Quality Brands Protection Committee, representing more than 140 multinational companies whose cumulative investments exceeds US\$50 billion investment in China, works together with the Chinese

The second method is controversial as well: infringed products⁵⁸⁶ 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. This calculation method reads like an open invitation to infringers to understate the price on tags and packaging.

The third method is 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. The same arguments against this middle market price could be used as against the first calculation method. By using these calculation methods of Interpretation 2004, it can be argued that police, prosecutors and courts might use deflated numbers that may not meet the thresholds. This does not support the effect a deterrent should have, although article 61 TRIPs only prescribes remedies, which include calculation methods, sufficient to provide a deterrent. 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 procedures⁵⁸⁷.

XLI: Punishment severity, certainty and imminence

Section 7 of the Criminal Law, which consists of the articles 213 through 220, not only states what kind of infringements of intellectual property trigger criminal liability, but also the duration of imprisonment sentences, criminal detention and public

central and local governments to improve intellectual property protection, available at: <http://www.qbpc.org.cn/en/about/about/factsheet>.

⁵⁸⁵ August Zhang, 'China: The Impact of New Judicial Interpretations in Intellectual Property -Related Criminal Cases', Rouse & Co. International, May 1, 2005, available here: <http://www.iprights.com/publications/articles/article.asp?articleID=265>.

⁵⁸⁶ Eric Smith, president of the International Intellectual Property Alliance, supports the inclusion of semi-finished products in the valuation method of the Interpretation 2004. Eric H. Smith, 'Testimony before the Subcommittee on Courts, the Internet, and Intellectual Property United States House of Representatives on International IPR Report Card, Assessing US Government and Industry Efforts to Enhance Chinese and Russian Enforcement of Intellectual Property Rights"', December 7, 2005, pg 8, available here: <http://www.iipa.com/rbc/2006/2006SPEC301PRC.pdf>.

⁵⁸⁷ Article 12 Interpretation 2004.

surveillance⁵⁸⁸ depending on the circumstances of the infringement. If circumstances are serious, or if the amount of sales or illegal gains is relatively large, the infringer will be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined. If the circumstances are especially serious and if the amount of sales or illegal gains is huge⁵⁸⁹, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined. According to Bottenschein the fines are in normal cases around RMB 20,000 and for legal entities RMB 100,000, and in serious cases RMB 100,000 and RMB 500,000 respectively⁵⁹⁰. An example is the second case the US Golf Manufacturers Anti-Counterfeiting Working Group won against Chinese counterfeiters, this time against golf club distributor Chen Hui⁵⁹¹.

TRIPs only refers explicitly to a punishment severity that is consistently with the level of penalties applied for crimes of a corresponding gravity. Hereby, TRIPs suggests that there is no need for punishment certainty and imminence of intellectual property crimes, consistently with the punishment certainty and imminence of crimes of a corresponding gravity. Even if the remedy available would be consistent with punishment severity for crimes of a corresponding gravity, but not consistent with punishment certainty and imminence for crimes of a corresponding gravity, article 41 (5) TRIPs gives China an alibi for not providing an effective deterrent. According to this provision China should not put in place a judicial system for the enforcement of intellectual property rights

⁵⁸⁸ Nagin, see note 242, pg 5.

⁵⁸⁹ Except article 6 Interpretation 2004, which states that if the amount of illegal gains is huge in case of selling pirated copyright, the infringer will be sentenced not more than three years imprisonment or criminal detention and/or fined.

⁵⁹⁰ Florian Bottenschein, 'Die Bekämpfung der Markenpiraterie in der Volksrepublik China und Hongkong', GRUR International, nr. 2, 2005, pg 124, footnote 30.

⁵⁹¹ The Shanghai Zhabei District Court sentenced Chen to imprisonment for 3.5 years and a fine of RMB 30,000. Shanghai Zhabei District Court tried the case in early March 2006 and ruled that the defendant's sales records alone were sufficient to prove prior sales of counterfeit golf products. This documentary evidence provided a legal basis for establishing the crime of selling goods with a counterfeit registered trademark. In many cases a court would require testimony from witnesses to prove prior sales, however in this case the court found that Chen had sold counterfeit golf clubs valued at more than RMB 600,000. This is more than the RMB 250,000 that article 2 paragraph 2 Interpretation 2004 sets out as threshold for the definition of "the amount of sales is huge" of article 214 Criminal Law. So a mandatory jail term of three years was the minimum, IP Dragon, 'Criminal Law: Counterfeit Golf Club Distributor Sentenced: 3.5 Years', April 27, 2006, available at: <http://ipdragon.blogspot.com/2006/04/criminal-law-counterfeit-golf-club.html>.

distinct from the enforcement of law in general, including the crimes of a corresponding gravity. And this provision also creates no obligation with respect to the distribution of resources between the enforcement of intellectual property rights and those of law in general. In other words: since the enforcement and capacity to enforce is low in the case of crimes of a corresponding gravity, there is no obligation to enforce any better or to add any more resources to it. The TRIPs minimum enforcement standards are made relative to law in general.

XLII: Discretion, consistency and predictability

Under the Prosecution guideline criminal liability was triggered in case of counterfeit trademarks and counterfeit patents “where a very bad effect is created”⁵⁹². This can be compared to “other circumstances of a serious nature”⁵⁹³ and “other circumstances of an especially serious nature”⁵⁹⁴ in the Interpretation 2004. What these other circumstances of a serious or of an especially serious nature mean remains undefined. And the phrase in the Prosecution guideline “Where products are sold in the clear knowledge”⁵⁹⁵ they infringe trademarks, is replaced by a similar open ended phrase in the Interpretation 2004: “Other circumstances in which the fact that the registered trademarks borne by the commodities are counterfeited is known”⁵⁹⁶ have also an discretionary element. For these provisions it is not clear whether it is the legislator’s intention that prosecution authorities exercise discretion exclusively in case of other circumstances that are unforeseen, or that they can exercise discretion as they see fit. Discretionary power gives judges more flexibility to decide whether or not to impose criminal liability. The other side of the coin is that it is not beneficial to legal security or consistency. Partly thanks to the discretionary provisions, as set forth above, and the different calculation methods to choose from, the local prosecution authorities use divergent methods to see whether to

⁵⁹² Articles 61 and 64 Prosecution guideline.

⁵⁹³ Article 1A(3), 3A(3), 4 and 5A(3) Prosecution guideline.

⁵⁹⁴ Article 1B(3), 3B(3), 5B(3) Prosecution guideline.

⁵⁹⁵ Article 64 Prosecution guideline.

⁵⁹⁶ Article 9(4) Interpretation 2004. According to Simone this provision suggests that constructive knowledge or negligence can be used as a basis to satisfy knowledge requirements. Simone, see note 571, pg 2.

impose liability. This has resulted in a non-uniform application of IP laws and regulations throughout China and a relative unpredictability for the right holders.

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