

THE AMERICAN CHAMBER OF COMMERCE IN HONG KONG

Intellectual Property Committee

Position Paper

NEED FOR GREATER TRADEMARK PROTECTION IN THE PRC

The Issue

Since the trade disputes with the United States in 1995 and 1996, China has made notable progress in enhancing the protection of intellectual property rights, including trademarks. This process has accelerated since China's entry into the World Trade Organization, and a number of important steps have been taken to improve laws and regulations relevant to anti-counterfeiting. Nonetheless, nearly a year after WTO entry, it is clear that much more needs to be done to reduce the extraordinarily high levels of trademark counterfeiting in China.

Position

China should take immediate steps to improve criminal, administrative, and civil enforcement against trademark counterfeiting, consistent with international standards and China's obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) administered by the WTO. These steps should include, at a minimum, measures to: (1) facilitate more effective criminal investigations and prosecutions of counterfeiters; and (2) improve administrative enforcement.

Specific Points

- Criminal Investigations and Prosecutions: Many brand owners continue to believe that the most effective way to stem the tide of counterfeiting is to dramatically increase the level of criminal enforcement. Historically, China has relied heavily upon administrative enforcement, but it is increasingly clear that even repeated raids by administrative officials have little or no deterrent impact on counterfeiters, who view such measures merely as a cost of doing business. Not until counterfeiters are subject to effective criminal prosecutions and meaningful prison sentences will the problem subside significantly. To achieve that goal, it is critical that China:
 - Take further steps to ensure the smooth and timely transfer of appropriate cases from administrative to police officials. Over a year ago, in July 2001, the State Council issued guidelines for the transfer of serious cases from administrative agencies to Public Security Bureaus (PSBs), but brand owners continue to report difficulties in this area.

- Dedicate substantially greater resources to PSBs for IPR enforcement (including, where possible, through the formation of specialized IP division).
- Clarify and lower the standards for criminal liability. Under applicable law and relevant prosecution guidelines issued by judicial authorities last year, criminal liability for trademark counterfeiting may attach in cases involving: (1) an individual where the “illegal business amount” exceeds RMB 100,000, and in cases involving an entity where the amount exceeds RMB 500,000; (2) a defendant with two prior offenses and the illegal business amount is 80% of the threshold amount for first offenders; (3) a “well-known” trademark; (4) pharmaceuticals for human consumption; or (5) resulting in “very bad influences.” The law, as interpreted by judicial guidelines, requires further clarification and improvement for several reasons:
 - It is unclear how to calculate the threshold amounts necessary for criminal liability to attach. Arguably, the amount should be based upon the average retail price of genuine product, as opposed to the price charged by the counterfeiter.
 - The threshold amounts are too high and should be substantially reduced or eliminated, provided the infringer is shown to be engaged in counterfeiting on a commercial scale.
 - The provision for three-time offenders is of little help, given the need to demonstrate an “illegal business amount” of 80% of the threshold. This requirement should be eliminated.
 - The provision for criminal liability in cases involving “well-known” marks is largely illusory for foreign brand owners, as no foreign company’s trademark has yet been given “well-known” status.
- Administrative Enforcement: While criminal action against counterfeiters is a priority, administrative officials remain a key part of the overall enforcement system. A number of steps should be taken to improve the effectiveness of the administrative enforcement system:
 - As noted, steps should be taken to facilitate the transfer of appropriate cases from administrative to criminal authorities.
 - The new Implementing Regulations to the Trademark Law, effective as of September 15, 2002, provide for additional administrative fines and penalties (including up to three times the infringer’s “illegal business amount” and minimum fines where the scope of the business is unclear). These are potentially helpful. However:
 - It is unclear under the new regulations how the “illegal business amount” is to be calculated. Again, this amount should arguably be based upon the retail price of genuine product.
 - Administrative authorities now have the discretion to impose fines of up to RMB 100,000 in cases where the scope of the counterfeiter’s infringing activities is unclear. They should be encouraged to exercise that discretion in all appropriate cases.

- Ensure that administrative authorities destroy infringing products as part of their enforcement action.
- Customs Enforcement: China Customs officials have played an increasingly active role in IP enforcement, particularly following the introduction in 1995 of the Customs Regulations on the Protection of Intellectual Property, which give border officials the authority to confiscate and destroy infringing products. However, the customs enforcement system could be further improved in a number of important respects:
 - Trademark owners are required to incur sometimes significant expenses related to the handling and storage of infringing products seized by customs officials (both for bonds equal to the value of the goods seized and for the actual cost of storage). These requirements should be abolished.
 - Industry representatives frequently report that customs officials are reluctant to impose meaningful administrative fines, even in cases involving large seizures of valuable product.
 - Customs seizures infrequently lead to criminal investigations and prosecutions. Further steps should be taken to facilitate the transfer of cases from customs officials to PSBs where cases merit criminal action.

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