

## PROTECTING AUSTRALIA'S TRADE MARK INTERESTS THROUGH THE AUSTRALIA-CHINA FREE TRADE AGREEMENT

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*Despite the existence of multilateral agreements such as those operating under the World Trade Organisation ('WTO'), the liberalisation of free trade and investment between nations in more recent times has been nurtured through the device of bilateral free trade agreements. This article considers but one aspect of such agreements in the context of the proposed Australia-China Free Trade Agreement (FTA), namely the intellectual property provisions, and more specifically the protection of trade marks. The implications for Australian interests are significant, particularly in the face of a troubled intellectual property enforcement regime in China. In negotiating an FTA with China, Australia must be apprised of and fully understand China's enforcement problems in order to arrive at appropriate means to curb trade mark infringement. To this end, a number of measures are suggested in this article with the aim of improving enforcement of intellectual property rights in China.*

### 1 INTRODUCTION

On 18 April 2005 the Australian and Chinese governments agreed to commence negotiations on an Australia-China Free Trade Agreement on the basis of a joint feasibility study demonstrating that both countries would obtain substantial economic and trade benefits.<sup>1</sup> The announcement, while welcomed by some Australians because of its potential to significantly boost the Australian economy, was greeted with concern by Australian businesses across a wide range of industry sectors. One very prominent apprehension concerned the issue of intellectual property enforcement in China.<sup>2</sup> For example, industry submissions have uncovered numerous examples of counterfeiting and piracy of Australian branded products and services, not just in China but even exported from China back into the Australian market.<sup>3</sup> But Australia is not alone. The

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<sup>1</sup> Department of Foreign Affairs and Trade, *Australia-China FTA Negotiations: Launch of Negotiations* <[http://www.dfat.gov.au/geo/china/fta/facts/launch\\_negotiations.html](http://www.dfat.gov.au/geo/china/fta/facts/launch_negotiations.html)> at 6 April 2006.

<sup>2</sup> Department of Foreign Affairs and Trade, *Australia-China FTA Negotiations: Behind the Border Issues and Concerns* <[http://www.dfat.gov.au/geo/china/fta/facts/border\\_issues.html](http://www.dfat.gov.au/geo/china/fta/facts/border_issues.html)> at 6 April 2006.

<sup>3</sup> Ibid.

United States of America has experienced rates of Chinese intellectual property infringement at 90%.<sup>4</sup>

When one considers that free trade agreements ('FTAs') are treaties employed to liberalise trade and investment between nations, the question of a balance of benefits between those nations is important. To this end, the incorporation of appropriate safeguard measures into the FTA is necessary to ensure that differences between, and perceived problems with, the legal and regulatory regimes of the contracting nations do not undermine the benefits accruing to the respective parties under the agreement. Intellectual property is one such issue that is typically dealt with in an FTA and is particularly relevant to the negotiation of the Australia-China FTA given the significant concerns of Australian businesses in relation to the protection of intellectual property in China. Concerns as to China's ability to adequately protect intellectual property are certainly justified given that China has been named the 'worst country in the world for copyright infringement and trademark violations'.<sup>5</sup>

This article will examine the way in which a FTA can be employed to reconcile the differences and perceived problems between the legal regimes of two nations. In order to achieve this goal, the issue of trade mark protection in China will serve as an illustration. Discussion will be from an Australian perspective and will deal with the protection of trade marks and the enforcement of trade mark rights in the context of the broader Chinese intellectual property regime. Geographical indications, domain names or measures other than the trade mark regime such as passing off, or the Law against Unfair Competition of the People's Republic of China ('PRC') that may be employed to protect trade marks will not form part of the discussion.

This article provides the contextual background on which the current negotiations for an Australia-China FTA are based. This is followed by an overview of the FTA as an element of the international trading system addressing the nature of an FTA as public international law and its legal impact on the parties to it on both the international and domestic plane. The necessity of including intellectual property protections, and in particular, trade mark measures in an FTA in order to maximise the gains from trade to both countries will be considered and placed in the context of international intellectual property regulation. The World Trade Organisation ('WTO') obligations of China and Australia, in particular the Agreement on Trade-related Aspects of Intellectual Property Rights ('TRIPS'), will be emphasised.

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<sup>4</sup> Office of the United States Trade Representative ('USTR'), *2005 Special 301 Report*, <[http://www.ustr.gov/assets/Document\\_Library/Reports\\_Publications/2005/2005\\_Special\\_301/asset\\_upload\\_file195\\_7636.pdf](http://www.ustr.gov/assets/Document_Library/Reports_Publications/2005/2005_Special_301/asset_upload_file195_7636.pdf)> at 9 September 2005.

<sup>5</sup> Yahong Li, 'The Wolf Has Come: Are China's Intellectual Property Industries Prepared for the WTO?' (2002) 20 *UCLA Pacific Basin Law Journal* 77, 91 citing John Pomfret, 'Chinese Pirates Rob "Harry" of Magic and Fees', *Washington Post* (Washington), November 1 2002.

This article will then demonstrate how the FTA, and the negotiations leading up to it, between Australia and China might be employed to address some of the difficulties Australian businesses face in regard to trade mark protection in China. The methods of trade mark enforcement available in China and the powers of the respective agencies or courts that administer trade mark laws will be outlined and problems analysed. This article then concludes with how those problems might be addressed utilising the yet to be negotiated Australia-China FTA.

## 2 BACKGROUND

The WTO is the international body in charge of administering and regulating the rules-based international trading system as negotiated and agreed by the now 149 member countries. It provides a common institutional framework for the conduct of trade relations between its members,<sup>6</sup> and is underpinned by the primary aspiration of trade liberalisation. One of its roles in attempting to achieve trade liberalisation is to provide a forum for facilitating the negotiation of multilateral trade agreements that attempt to lower tariffs and other barriers to trade in goods, services and investment. However, with the failure of negotiations at Cancun and the current Doha round of negotiations floundering,<sup>7</sup> the ability of the WTO and multilateral trade negotiations to have the desired negative impact on protectionism has been called acutely into doubt. As a result, the international community is increasingly turning away from multilateral trade negotiations toward bilateral agreements in order to boost trade and investment and stimulate their domestic economies.

Eager not to miss its chance, the Australian government has enthusiastically pursued and completed, in addition to its Closer Economic Relations ('CER') with New Zealand, FTAs with Thailand, Singapore and the United States and is currently negotiating FTAs with China, Malaysia and the United Arab Emirates.<sup>8</sup> Australia has also begun negotiations on a regional FTA between itself, the ten Association of South East Asian Nations ('ASEAN') countries and New Zealand. Meanwhile, Australia and Japan are in the process of conducting a feasibility study in order to decide whether or not an FTA would benefit their respective economies.

Negotiations on the Australian-China FTA began on 23 May 2005.<sup>9</sup> The second round of negotiations was undertaken in August 2005 and the third round took

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<sup>6</sup> *Marrakesh Agreement Establishing the World Trade Organisation (WTO Agreement)*, opened for signature 15 April 1994, [1995] ATS 8, art 2(1) (entered into force 1 January 1995).

<sup>7</sup> As at the time of writing (October to November 2005, prior to the Sixth Ministerial Conference of the WTO held on 13-18 December 2005 in Hong Kong).

<sup>8</sup> Department of Foreign Affairs and Trade, above n 1.

<sup>9</sup> *Ibid.*

place in Beijing in early November 2005.<sup>10</sup> These formed the information exchange stage of the negotiations.<sup>11</sup> The recently completed fourth round of negotiations (27 February – 2 March 2006) took place in Australia and was the first substantive negotiating meeting designed to establish an agreed approach to the negotiation of the provisions of the FTA including determining proposed market access concessions.<sup>12</sup> It has been stated that this meeting ‘has provided a solid basis for substantive discussions to begin at the fifth meeting on virtually all possible provisions of the text of the FTA’.<sup>13</sup> The fifth meeting took place in Beijing on 22 - 24 May 2006 where agreement was achieved on aspects of the basic structure of the FTA.<sup>14</sup> It was during this round of negotiations that Australia tabled the texts of 15 proposed chapters for the FTA, including a chapter on the protection of intellectual property rights.<sup>15</sup> The negotiation of actual provisions dealing with access to each party’s markets is expected to commence during the sixth round of negotiations scheduled for September 2006.<sup>16</sup>

The forecasted gain of such an agreement for Australia is an estimated A\$24.4 billion boost to the Australian economy over the 10 years from its entry into force.<sup>17</sup> China, on the other hand, is expected to gain up to A\$86.9 billion over the same period.<sup>18</sup> The Australian government does not appear to be concerned by the disparity noting:

As the world’s seventh-largest economy, China is a significant market for Australia. Growth in Australian exports to China has accelerated, averaging 19 per cent annually for the past five years. China is our third-largest trading partner, with two-way trade valued at A\$31 Billion in 2004.<sup>19</sup>

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- 10 Department of Foreign Affairs and Trade, *Australia-China FTA Negotiations: Subscriber Update, 11 November 2005* <[http://www.dfat.gov.au/geo/china/fta/051111\\_subscriber\\_update.html](http://www.dfat.gov.au/geo/china/fta/051111_subscriber_update.html)> at 6 April 2006.
- 11 Department of Foreign Affairs and Trade, *Australia-China FTA Negotiations: Subscriber Update, 3 March 2006* <[http://www.dfat.gov.au/geo/china/fta/060303\\_subscriber\\_update.html](http://www.dfat.gov.au/geo/china/fta/060303_subscriber_update.html)> at 6 April 2006.
- 12 Department of Foreign Affairs and Trade, above n 10.
- 13 Ibid.
- 14 Department of Foreign Affairs and Trade, *Australia-China FTA Negotiations: Subscriber Update, 20 June 2006* <[http://www.dfat.gov.au/geo/china/fta/060620\\_subscriber\\_update.html](http://www.dfat.gov.au/geo/china/fta/060620_subscriber_update.html)> at 18 August 2006.
- 15 Ibid.
- 16 Ibid.
- 17 Department of Foreign Affairs and Trade, *Australia-China FTA Negotiations: Potential Benefits-Overview* <<http://www.dfat.gov.au/geo/china/fta/facts/overview.html>> at 6 April 2006.
- 18 Ibid.
- 19 Ibid.

Australia's primary industries have much to gain from the liberalisation of trade with China. While the Chinese marketplace is vast, access by Australian exporters is limited through the operation of tariffs and quotas and other non-tariff measures utilised by the Chinese.<sup>20</sup> A FTA between Australia and China could provide the Australian agriculture and resources sectors with preferential access to China through the reduction or elimination of tariffs and quotas and changes to non-tariff barriers.<sup>21</sup> In fact, concern has been expressed by certain agricultural industries in Australia as to the implications of not obtaining the preferential treatment afforded under a FTA indicating 'that as China negotiates FTAs with other countries, competitors will be fast-tracked into the Chinese market through preferential tariff and quota treatment or changes to non-tariff measures, reducing Australia's competitiveness'.<sup>22</sup>

Meanwhile, Australian industries as a whole have raised significant concerns about a FTA with China. Issues of concern include regulatory uncertainty and lack of transparency in the Chinese legal framework, discrimination against foreign suppliers of services, customs procedures, standards and quarantine measures, tariffs on agricultural and commodity exports, barriers to investment<sup>23</sup> and particularly the effectiveness of intellectual property protection in China.<sup>24</sup> In relation to the last issue of concern, it is the enforcement of intellectual property rights in China that has received the greatest criticism from Australian interests.<sup>25</sup> Submissions from interested parties have documented the experiences of Australian rights holders in dealing with the enforcement regime in China.<sup>26</sup> Accordingly, it is in this context that an intellectual property chapter must be considered in the drafting of the Australia-China FTA.

### 3 THE NATURE OF FREE TRADE AGREEMENTS

FTAs can take the form of multilateral treaties, like the *General Agreement on Tariffs and Trade* ('GATT')<sup>27</sup> that regulate trade in goods between the 149 WTO members,<sup>28</sup> regional trade agreements, like that proposed between

20 Department of Foreign Affairs and Trade, *Australia-China FTA Negotiations: Interests and Concerns of the Australian Agriculture Sector* <[http://www.dfat.gov.au/geo/china/fta/facts/agriculture\\_2.html](http://www.dfat.gov.au/geo/china/fta/facts/agriculture_2.html)> at 18 August 2006.

21 Ibid. See also Department of Foreign Affairs and Trade, *Potential Benefits – Mining and Energy* <<http://www.dfat.gov.au/geo/china/fta/facts/mining.html>> at 18 August 2006.

22 Department of Foreign Affairs and Trade, above n 20.

23 Department of Foreign Affairs and Trade, above n 1.

24 Department of Foreign Affairs and Trade, above n 2.

25 Ibid.

26 Ibid.

27 *General Agreement on Tariffs and Trade 1947*, opened for signature 15 April 1994, [1995] ATS 40 (entered into force 1 January 1995).

28 World Trade Organisation, *Understanding the WTO: The Organisation, Members and Observers* (2005) <[http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm)> at 5 May 2006.

ASEAN, New Zealand and Australia, or bilateral agreements, which have only two parties. Despite variation in form, all of these agreements are treaties, which serve as a contract between the parties to the treaty and thus create legal obligations between them on the international plane.<sup>29</sup>

There are conflicting approaches as to whether treaties concluded by the government of a State on the international plane can create rights and obligations for the citizens of a party nation on the domestic plane without further legislative action. Australia follows the 'transformation approach', which holds that treaty obligations may only gain the force of municipal or domestic law upon the enactment of domestic legislation.<sup>30</sup> For example, the rights and obligations conferred by the Australia-United States FTA ('AUSFTA')<sup>31</sup> are only able to be invoked by Australian individuals and companies because they have been 'transformed' into domestic law by the *US Free Trade Agreement Implementation Act 2004* (Cth). Conversely, the absence of implementing legislation means that individuals and companies in Australia cannot bring an action based on the rights or obligations conferred by a treaty. If Australia fails to introduce implementing legislation, it is in breach of its international obligations for which the remedy lies at the international level between Australia and the other State(s) party to the agreement.<sup>32</sup>

The alternative approach, labelled the 'incorporation approach', provides that treaty obligations become part of the domestic law of a party automatically upon ratification or acceptance of a treaty at the international level. Thus, individuals and companies that wish to bring proceedings in a country that adheres to the incorporation approach may rely directly on a treaty as the source of their right or someone else's obligation. Article 142 of the *General Principles of the Civil Law of the People's Republic of China 1986* states:

If any international treaty concluded or acceded to by the People's Republic of China contains provisions differing from those in the civil laws of the People's Republic of China, the provisions of the international treaty shall apply, unless the provisions are ones on which the People's Republic of China has announced reservations.

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29 Donald Greig, 'Sources of International Law' in Sam Blay, Ryszard Piotrowicz and Martin Tsamenyi (eds), *Public International Law: An Australian Perspective* (2<sup>nd</sup> ed, 2005) 52, 61.

30 See *Dietrich v The Queen* (1992) 177 CLR 292 and discussion in Rosalie Balkin, 'International Law and Domestic Law' in Sam Blay, Ryszard Piotrowicz and Martin Tsamenyi (eds), *Public International Law: An Australian Perspective* (2<sup>nd</sup> ed, 2005) 115, 122-125.

31 *Australia-US Free Trade Agreement*, 18 May 2004, [2005] ATS 1 (entered into force 1 January 2005).

32 Balkin, above n 30, 122-123.

This provision applies to the 'application of law in civil relations with foreigners'.<sup>33</sup> Article 142 is an example of the way in which treaty obligations may be incorporated automatically into the domestic law of a party to a treaty (note however that in this case the benefit of that incorporation seems not to extend to Chinese individuals or businesses). The legal and practical intricacies of the implications of this provision are beyond the scope of this article. However, there is some authority which suggests that in the case of intellectual property treaties, only the multilateral *Berne Convention*<sup>34</sup> and *Paris Convention*<sup>35</sup> are caught by this provision, and that TRIPS is specifically excluded.<sup>36</sup> If this is the case, then legislation will probably be required in China to give effect to any rights and obligations created by the Australia-China FTA.

The central focus of a FTA, as the name would suggest, is the liberalisation of trade and investment between the parties to the agreement. This involves granting preferential market access to the goods, services and investment of the nation's party to the agreement via tariff reduction and the removal of other forms of trade barriers and the revision and reconciliation of regulatory measures. Other issues that are frequently addressed in FTAs include the recognition of standards, customs operation and protection of intellectual property rights.<sup>37</sup> The following discussion demonstrates the importance of addressing the protection of intellectual property rights in FTAs by illustrating the effects of trade mark infringement through such activities as product counterfeiting or piracy.

#### 4 TRADE MARKS AND FREE TRADE AGREEMENTS

Trade marks are 'marketing tools that protect reputation and maintain differentiation between the product or service for which the mark is used and competitive products or services'.<sup>38</sup> Well-known trade marks, such as Coca-Cola, Levi's and Microsoft 'generate a commercial magnetism of ...

<sup>33</sup> *General Principles of the Civil Law of the Peoples Republic of China* art 142.

<sup>34</sup> *Berne Convention for the Protection of Literary and Artistic Works of 9 September 1886, as revised*, opened for signature 24 July 1971, [1978] ATS 5 (entered into force 15 December 1972).

<sup>35</sup> *Paris Convention for the Protection of Industrial Property of 20 March 1883*, opened for signature 20 March 1883, [1972] ATS 12 (entered into force 26 April 1970).

<sup>36</sup> NTD Intellectual Property, *Answers by Beijing Municipal Higher People's Court of Several Questions Relating to Application of Law to Foreign-related Civil IP Cases* (2004), No. Jinggaofafa 49/2004 (18 February 2004) <<http://www.chinantd.com/news.php?language=en&channel=65&id=80>> at 29 September 2005.

<sup>37</sup> Australian Government, *About Free Trade Agreements* <<http://www.fta.gov.au/default.aspx?FolderID=161&ArticleID=183>> at 7 September 2005.

<sup>38</sup> Karuna Maharaj, 'Well Known Trade Marks in Australia and Other Jurisdictions' (2005) 17(9) *Australian Intellectual Property Bulletin* 145, 145.

extraordinary power<sup>39</sup> and can thus be worth billions of dollars to those who own them. Trade marks may be applied to both goods and services, however counterfeiting and trade mark infringement occur predominantly in respect of goods. While there is some suggestion that counterfeiting and trade mark infringement are distinguishable acts,<sup>40</sup> it is not considered that this is a distinction of any significance and the terms are used interchangeably in this article.

Unabated counterfeiting has a number of negative consequences for trade mark owners. Trade mark infringing products and services are able to be produced more cheaply than the genuine article or service (see discussion below). The sale of comparatively cheaper infringing goods has the effect of diverting business from the legitimate trade mark user resulting in decreased market share. Infringement also undermines the value of the trade mark to the entity that owns it because it will no longer be effective in distinguishing the goods of the trade mark owner from those of its competitors.<sup>41</sup> Further, due to the application of trade marks to often low quality, imitation products, infringement leads to dilution of the business reputation of the legitimate trade mark user, where consumers are disappointed with the performance of what they consider to be the genuine product. The costs of fighting trade mark counterfeiting through enforcement proceedings can also contribute to the costs of running a business.

Intellectual property laws are relevant to international trade because of the way in which uneven or inadequate protection distorts the basis on which firms compete.<sup>42</sup> In respect of trade mark infringement:

In a market with effective IP protection, manufacturers compete against each other on the basis of quality and price. Manufacturers may invest in quality control, good materials, research and development and marketing so that consumers will associate their brand with particular characteristics, such as quality.<sup>43</sup>

Manufacturers of trade mark-infringing goods however, have no need for investment that goes toward establishing a reputation given that legitimate producers have already done so. The infringer will therefore face much lower costs than the genuine manufacturer, while still capitalising on the established reputation. Such a situation creates a barrier to market entry for genuine

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39 Ibid.

40 Daniel CK Chow, *A Primer on Foreign Investment Enterprises and Protection of Intellectual Property in China* (2002) 187.

41 Angela Gregory, 'Chinese Trademark Law and the TRIPS Agreement - Confucius Meets the WTO' in Deborah Cass, Brett Williams and George Barker (eds), *China and the World Trading System: Entering the New Millennium* (2003) 321, 321.

42 Ibid.

43 Ibid 321-322.

manufacturers who recognise that the illegitimate appropriation of their reputation will render them unable to compete effectively with counterfeiters on quality and price.<sup>44</sup> Given the significant relationship between international trade and intellectual property, trade negotiations and the coverage of intellectual property (trade marks in particular) in FTAs is an appropriate method by which to deal with intellectual property problems in the relations between States.

The necessity for coverage of intellectual property in a FTA arises from the increased risk of economic loss for businesses through increased opportunities for intellectual property infringement when access to goods and services markets is improved. '[W]hat will assist the production, distribution, export and sale of genuine products will do likewise for counterfeit products.'<sup>45</sup>

This will be the case unless the appropriate intellectual property protections are available. Obviously, the importance of the inclusion of stringent intellectual property measures will differ based on whether the FTA is being negotiated with a developed country such as the US, with an already sophisticated intellectual property regime, or with a nation such as China, where the recognition of intellectual property rights is a relatively new phenomenon and a current poor record of intellectual property right protection subsists. The magnitude of losses that can be expected from trade mark violations in China can be approximated by considering the annual losses estimated by multinational enterprises from infringement in China including US\$150 million for Proctor and Gamble, US\$70 million for Nike and US\$20 million for Unilever.<sup>46</sup>

## 5 FREE TRADE AGREEMENTS IN CONTEXT: INTERNATIONAL IP REGULATION AND TRIPS

'The relationships between international instruments are becoming more intricate. A metaphor with currency is the spider's web, another is the regulatory criss-cross.'<sup>47</sup>

The current world trade atmosphere in which the Australia-China FTA negotiations are taking place is one of controversy. The desirability of bilateral and regional trade deals versus multilateral deals is being fiercely argued, while cynicism abounds as to the workability of multilateral trade negotiations via the

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<sup>44</sup> Ibid.

<sup>45</sup> Linh Le-Nguyen, 'World Trade Compliance: The Future for Intellectual Property Rights in China?' (2002) 14(9) *Australian Intellectual Property Law Bulletin* 105, 109 citing Douglas Clark, 'IP Rights Protection Will Improve in China - Eventually', *China Business Review* May/June 2000 at <[www.chinabusinessreview.com/public/0005/clark.html](http://www.chinabusinessreview.com/public/0005/clark.html)>.

<sup>46</sup> Chow, above n 40, 194.

<sup>47</sup> Christopher Arup 'The United States Free Trade Agreement - the Intellectual Property Chapter' (2004) 15 *Australian Intellectual Property Journal* 205, 207.

forum of the WTO and the prospects of 149 nations ever reaching anything resembling consensus. The reality facing the international trading world is that agreement between WTO member nations is very difficult to achieve, and as such, bilateral and regional deals are the only practical avenue open to achieve the gains on offer through trade liberalisation.<sup>48</sup> The resultant 'frenzy of activity'<sup>49</sup> on the bilateral and regional trade front has left many governments and commentators worried about the impact of such a 'spaghetti-bowl'<sup>50</sup> approach on the world trading system:

[T]he current melange of global, regional and bilateral international trade agreements have different, congruent, and conflicting substantive, procedural and enforcement provisions. This creates confusion and uncertainty and encourages global forum shopping and multiple proceedings.<sup>51</sup>

The interaction of FTAs to which a nation is a signatory at various levels – that is, bilateral, regional and multilateral – means that the impact of any given agreement may differ from that expected on reading the text of that agreement. The following will attempt to outline the various ways in which membership of the WTO, the TRIPS agreement and other international intellectual property treaties might impact on the Australia-China FTA.

### 5.1 WTO Membership and Its Impact

Australia has been a member of the WTO since its inception in January 1995 and prior to that was a 'GATT contracting party' since GATT was founded in 1948. China acceded to the WTO in November 2001 after fifteen years of negotiations,<sup>52</sup> beginning prior to GATT being replaced by the WTO. Membership of the WTO requires a State to accede to the umbrella agreement of the WTO, the *Marrakesh Agreement Establishing the World Trade Organisation*,<sup>53</sup> which encompasses all the agreements and arrangements concluded under the auspices of the WTO and its predecessor GATT.<sup>54</sup> Three

48 Joint Standing Committee on Treaties, Parliament of Australia, *Report 61: The Australia-China Free Trade Agreement* (2004) [2.8].

49 Ibid [2.35] citing Peter Hatcher, 'With No Multilateral Choice, the Answers Must all be Yes', *Sydney Morning Herald* (Sydney), 1 May 2004. It was also stated that: 'In 1990 there were 40 such deals. By 2002 there were 250 and more than 30 more under discussion'.

50 Joint Standing Committee on Treaties, Parliament of Australia, *Report 61: The Australia-China Free Trade Agreement* (2004) [2.10-2.11] citing US-Singapore Free Trade Agreement Report of the Trade and Environment Policy Advisory Committee (TEPAC) 27 February 2004.

51 Ibid.

52 Ching Cheong and Ching Hung-Yee, *Handbook on China's WTO Accession and its Impacts* (2003) v.

53 *Marrakesh Agreement Establishing the World Trade Organisation (WTO Agreement)*, opened for signature 15 April 1994, [1995] ATS 8 (entered into force 1 January 1995).

54 Ching and Ching, above n 52, 347.

major agreements established under the WTO underpin the rules-based international trade system: the GATT,<sup>55</sup> the *General Agreement on Trade in Services* ('GATS') and the *Agreement on Trade-Related Aspects of Intellectual Property Rights* ('TRIPS').<sup>56</sup> These agreements form the 'legal bedrock'<sup>57</sup> of any FTA between WTO members, with the consequence that the intellectual property chapter of a Australia-China FTA must therefore be TRIPS compliant.

A further implication of WTO membership for the protection of Australia's intellectual property rights in China is that the WTO dispute settlement measures under the *Understanding on Rules and Procedures Governing the Settlement of Disputes*<sup>58</sup> will be available to all WTO members for the enforcement of China's TRIPS obligations. The role of the WTO membership in pushing China toward greater compliance with TRIPS will have a significant positive impact in promoting the improved enforcement of intellectual property rights in China.<sup>59</sup> At the time of writing, the United States Trade Representative ('USTR') stated in a report released on 28 April 2006 that consideration was being given to filing a challenge in the WTO against intellectual property piracy and counterfeiting in China:<sup>60</sup> 'Faced with only limited progress by China in addressing certain deficiencies in IPR protection and enforcement, the United States will step up consideration of its WTO dispute settlement options.'<sup>61</sup>

## 5.2 TRIPS and Other International Agreements

TRIPS is an attempt to narrow the gaps in the way intellectual property rights are protected around the world, and to bring intellectual property protection under common international rules.<sup>62</sup> The agreement complements existing agreements negotiated under the auspices of the World Intellectual Property Organisation, providing enforcement and dispute settlement mechanisms that were previously unavailable.<sup>63</sup> TRIPS covers five broad issues, including the application of basic WTO principles such as most-favoured nation and national treatment, the protection and enforcement of intellectual property rights, the settlement of disputes between WTO members and transitional arrangements

<sup>55</sup> *General Agreement on Tariffs and Trade 1947*, opened for signature 15 April 1994, [1995] ATS 40 (entered into force 1 January 1995).

<sup>56</sup> *Agreement on Trade Related Aspects of Intellectual Property Rights*, opened for signature 15 April 1994, [1995] ATS 38 (entered into force 1 January 1995).

<sup>57</sup> Christopher Arup, 'The US-Australia FTA: Law Making on the Frontier' (2004) 29(1) *Alternative Law Journal* 27, 27.

<sup>58</sup> Annexure 2 to the *Marrakesh Agreement Establishing the World Trade Organisation (WTO Agreement)*, opened for signature 15 April 1994, [1995] ATS 8 (entered into force 1 January 1995).

<sup>59</sup> Alex Low, 'To Counterfeit in China is Divine: Or is it?' (2002) 7 *Deakin Law Review* 21.

<sup>60</sup> USTR, above n 4, 15.

<sup>61</sup> Ibid.

<sup>62</sup> Ching and Ching, above n 52, 118.

<sup>63</sup> Ibid.

during the period when the new system is being introduced. In regard to the last point, China, while it could still be considered a developing nation from an economic point of view, joined the WTO as a developed country because of the concern of developed nations (particularly the United States) relating to the potential growth of China upon accession to the WTO.<sup>64</sup> As such, China was required to comply fully with TRIPS upon accession.

Principles of non-discrimination such as most-favoured nation ('MFN') treatment and national treatment underpin the WTO and TRIPS.<sup>65</sup> MFN treatment requires equal treatment for nationals of all trading partners in the WTO. National treatment requires WTO members to accord foreign nationals treatment no less favourable than that which it accords to its own nationals. The application of the MFN provision<sup>66</sup> of TRIPS to the Australia-China FTA would mean that the impact of the FTA would be cumulative in that some of the obligations undertaken by China or Australia must be extended immediately to the nationals of all other WTO members.<sup>67</sup> The MFN provision in TRIPS purports to apply to measures 'with regard to the protection of intellectual property'.<sup>68</sup> A note to that section provides further that 'protection' includes matters affecting the availability, acquisition, scope, maintenance and enforcement of intellectual property rights as well as those matters affecting the use of intellectual property rights specifically addressed in TRIPS. Measures in the Australia-China FTA falling within these categories would be required to be extended to all other WTO members.

Other international agreements to which Australia and China are parties, for example, the *Madrid Agreement Concerning the International Registration of Marks 1891* and its 1989 protocol effective 1995<sup>69</sup>, must also be adhered to by both nations in their final agreement on intellectual property for the FTA or risk action by members of those treaties. In respect of enforcement of intellectual property treaties, the *Paris Convention*<sup>70</sup> and the *Berne Convention*<sup>71</sup> are

64 Ibid v.

65 See *Agreement on Trade Related Aspects of Intellectual Property Rights*, opened for signature 15 April 1994, [1995] ATS 38, arts 3 and 4 (entered into force 1 January 1995).

66 *Agreement on Trade Related Aspects of Intellectual Property Rights*, opened for signature 15 April 1994, [1995] ATS 38, art 4 (entered into force 1 January 1995).

67 Arup, above n 57, 27.

68 See *Agreement on Trade Related Aspects of Intellectual Property Rights*, opened for signature 15 April 1994, [1995] ATS 38 (entered into force 1 January 1995).

69 *Madrid Agreement Concerning the International Registration of Marks of April 14, 1891 (as revised at Brussels on December 14, 1900, at Washington on June 2, 1911, at The Hague on November 6, 1925, at London on June 2, 1934, at Nice on June 15, 1957, and at Stockholm on July 14, 1967, and as amended on September 28, 1979) and Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks 1981*, opened for signature 27 June 1989, [2001] ATS 7 (entered into force 1 December 1995).

70 *Paris Convention for the Protection of Industrial Property of 20 March 1883 as revised at Brussels on 14 December 1900, at Washington on 2 June 1911, at the Hague on 6*

incorporated into TRIPS,<sup>72</sup> meaning that the enforcement mechanisms available under the WTO (for example, trade sanctions) are available to enforce them.

## 6 THE CHINESE TRADE MARK REGIME

Of the Department of Foreign Affairs and Trade submission to the Senate Inquiry on Australia's Relationship with China it has been said that 'the submission reduces serious issues, including China's appalling record on intellectual property theft and bureaucratic interference, to a few banal sentences that put a positive gloss on extremely marginal reforms'.<sup>73</sup>

These sentiments echo the attitude of the media and industry groups throughout most of the developed world in response to continued high rates of intellectual property infringement in China. While it is certainly true that piracy and counterfeiting continues to be a major problem in China, such platitudes do no justice to the significant advances China has made in modernising its intellectual property rights system in a relatively short period of time. Despite only recognising intellectual property rights (as the Western world knows them) in the last 20 years, China has put in place an intellectual property regime that most commentators would agree is already substantially TRIPS compliant.<sup>74</sup> Why then is it that China continues to have 'one of the highest [intellectual property] infringement rates in the world?'<sup>75</sup>

### 6.1 Substantive Laws of the Chinese Trade Mark Regime

China's trade mark law is contained centrally in the *Trademark Law of the PRC* (the 'Trademark Law') and implementing rules and regulations made under it.<sup>76</sup>

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November 1925, at London on 2 June 1934, at Lisbon on 31 October 1958, and at Stockholm on 14 July 1967, opened for signature 20 March 1883, [1972] ATS 12 (entered into force 26 April 1970).

71 *Berne Convention for the Protection of Literary and Artistic Works of 9 September 1886 as revised*, opened for signature 24 July 1971, [1978] ATS 5 (entered into force 15 December 1972).

72 *Agreement on Trade Related Aspects of Intellectual Property Rights*, opened for signature 15 April 1994, [1995] ATS 38, art 2 (entered into force 1 December 1995).

73 Geoffrey Baker, 'When it Comes to China, Australia Chooses... the Full Kowtow' *Australian Financial Review* (Sydney), 16 July 2005, 29.

74 Le-Nguyen, above n 45, 109 and Mikhaelle Schiappacasse, 'Intellectual Property Rights in China: Technology Transfers and Economic Development' (2004) 2 *Buffalo Intellectual Property Law Journal* 164, 176.

75 Schiappacasse, above n 74, 165.

76 These include: *Regulations for the Implementation of the Trademark Law of the People's Republic of China* (2002); *Provisions on the Recognition and Protection of Well-known Trademarks* (2003); *Measures for the Registration and Administration of Collective Marks and Certification Marks* (2003); *Measures for the Implementation of International Registration of Marks under the Madrid Agreement* (2003); *Rules for Trademark Review and Adjudication* (2002); *Regulations on the Protection of Olympic Symbols* (2002); *Regulations on the Administration of Special Signs* (1996).

The *Trademark Law* was first promulgated in China in 1982 and has undergone much review and amendment since then. In 1993, it was amended to extend protection to service marks.<sup>77</sup> The first protection for well-known trade marks was also incorporated into the *Trademark Law* in 1993, with art 25 of the *Implementing Rules of the Trademark Law of the People's Republic of China 1993* describing the circumstances in which registration of a trade mark is obtained by deception or other improper means<sup>78</sup> as including use of another person's trade mark that is 'already well-known to the public'.

The *Trademark Law* was revised again in 2001 due to China's forthcoming accession to the WTO and the resultant necessity of conformity with TRIPS. The measures introduced included:

- The addition of a six-month 'right of priority' in conformity with the obligations of the *Paris Convention* incorporated in art 2 of TRIPS.<sup>79</sup>
- The enlargement of the specified elements that form a trade mark from words, designs or their combinations, to extend to any 'word, design, letters of an alphabet, numerals, three-dimensional symbol, combinations of colours and their combination'<sup>80</sup> in accordance with the requirements in art 15(1) of TRIPS.
- The enlargement of the range of objects protected to include collective marks and certification marks.<sup>81</sup>
- The inclusion of provisions expressly protecting well-known trade marks.<sup>82</sup>
- The addition of provisions precluding prior registration in bad faith.<sup>83</sup>

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77 Zheng Chengsi, 'The TRIPS Agreement and Intellectual Property Protection in China' (1998) 9 *Duke Journal of Comparative and International Law* 219, 221. See *Trademark Law of the People's Republic of China* ('*Trademark Law*') arts 3 and 4.

78 Prohibited by art 27 of the *Trademark Law*.

79 Under art 24 of the *Trademark Law*, a six-month right of priority now exists in accordance with any international agreement or treaty to which China is a party, such that a right of priority exists where an applicant has filed an application for registration of a trade mark in the last six-months in another country party to the said international treaty. See Gregory, above n 41, 333.

80 *Trademark Law* art 8.

81 *Trademark Law* art 3. See Ching and Ching, above n 52, 127 and Gregory, above n 41.

82 Article 13 of the *Trademark Law* provides that both registered and unregistered trade marks can be recognised as well-known and should be protected, while art. 14 sets out how well-known marks are to be identified. Further explanation and guidance are provided in the *Provisions on the Determination and Protection of Well-Known Marks* issued by the State Administration of Industry and Commerce ('SAIC') on 17 April 2003.

83 Article 31 of the *Trademark Law* now provides that 'application for the registration of a trademark shall not create any prejudice to the prior right of another person, nor unfair means be used to pre-emptively register the trademark of some reputation another person has used'.

These amendments brought the substantive trade mark law of China into essential agreement with TRIPS.

Given this fact, it is likely that Australia will seek a limited number of technical adjustments to China's substantive trade mark law. Examples of amendments that might be requested include: the express recognition that a name can be a trade mark as required by art 15 of TRIPS; the express recognition of non-visually perceptible marks such as sound and scent marks; and the extension of protection for well-known trade marks by specifying that infringement is recognised in relation to goods and services for which the well-known mark is not registered.<sup>84</sup>

## 6.2 Administration of the Chinese Trade Mark Regime

### 6.2.1 Legislative Power

There are three levels of Chinese legislative authority. The National People's Congress and Standing Committee engender the highest level of legislation which overrules other legislation in the event of conflict. The *Trademark Law* is an example of legislation promulgated at this level. The State Council generates the next legislative level, known as 'administrative statutes'. Legislation of this level includes the *Regulations for the Implementation of the Trademark Law* and *Regulation of People's Republic of China on Customs Protection of Intellectual Property Rights*. Only legislation passed by the National People's Congress and Standing Committee and State Council may be applied by the courts. The lowest level of legislative power is that exercised by departments under the State Council. The courts may make reference to the rules published at the lowest level, but may not rely on them when deciding cases.<sup>85</sup> The subsidiary instruments such as administrative measures are promulgated by the State Administration for Industry and Commerce and are of the lowest level of legislative authority.

### 6.2.2 Registration

Similarly to the Australian regime, the protection of trade marks in China hinges on a system of registration. The Trademark Office of the China State Administration of Industry and Commerce ('SAIC') (a department under the State Council) is responsible for the registration and administrative control of trademarks nationwide.<sup>86</sup> The SAIC has local and county level branches

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<sup>84</sup> This is in line with s 120(3) of the *Trade Marks Act 1995* (Cth). Article 52 of the *Trademark Law* at present recognises an infringement in relation to goods or services identical or similar to those for which the well-known mark is registered.

<sup>85</sup> Chengsi, above n 77, 220 citing the *Constitution of the People's Republic of China* arts 62, 67, 89 and 90.

<sup>86</sup> *Trademark Law* art 2.

(referred to as AICs) in all Chinese provinces. Applications for the registration of trade marks are made to the Trademark Office, where they are examined and preliminarily approved and published if in conformity with the *Trademark Law*.<sup>87</sup> If the trademark is refused for not being in conformity with the *Trademark Law*, the applicant may appeal to the Trademark Review and Adjudication Board<sup>88</sup> ('the Board'), which is responsible for 'handling matters of trademark disputes'.<sup>89</sup> Any interested party who is 'not satisfied' with the decision made by the Board may appeal to the People's Court.<sup>90</sup> An opposition may be filed by 'any person' to the Trademark Office within three months from the date of publication.<sup>91</sup> If no opposition is filed, registration will be approved, a certificate of trademark registration will be issued and the trademark will be published.<sup>92</sup> Opposition applications will be decided at first instance by the Trademark Office, but may be appealed to the Board. A further right of appeal exists to the People's Court.<sup>93</sup> The Trademark Office or the Board may also determine whether a trade mark constitutes a well-known trade mark upon request of an interested party<sup>94</sup> as may the People's Court when it is hearing a trade mark dispute.<sup>95</sup>

### 6.2.3 *The People's Courts*

The People's Courts in China have four trial levels, the Supreme People's Court, High People's Courts, Intermediate People's Courts and District People's Courts,<sup>96</sup> with the Supreme People's Court being the highest judicial authority in the PRC. The People's Courts each have four trial divisions:<sup>97</sup>

1. A civil division, where civil cases including copyright cases are heard;
2. An economic division, where economic matters, including matters involving the Economic Contract Law of the People's Republic of China and industrial property laws including the Patent Law of the People's Republic of China, Trademark Law of the People's

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87 *Trademark Law* art 27.

88 *Trademark Law* art 32.

89 *Trademark Law* art 2.

90 *Trademark Law* art 32.

91 *Trademark Law* art 30.

92 *Trademark Law* art 30.

93 *Trademark Law* art 33.

94 *Implementing Regulations of the Trademark Law of the People's Republic of China (2002)* art 5.

95 *Judicial Interpretations Made by PRC Supreme Court Relating to Application Law in Hearing Trademark Civil Dispute* art 22.

96 Naigen Zhang, 'Intellectual Property Law in China: Basic Policy and New Developments' (1997) 4 *Annual Survey of International and Comparative Law* 1, 14. See also, Kui Hua Wang, *Chinese Commercial Law* (2000) 25-26.

97 Zhang, above n 96, 14.

- Republic of China and the Law Against Unfair Competition of the People's Republic of China are enforced;
3. A criminal division, hearing all matters under the *Criminal Law of the People's Republic of China* including criminal actions for infringement of intellectual property; and
  4. An administrative division, which hears matters pertaining to the *Administrative Law of the People's Republic of China*.

In 1993, in response to international pressure to boost the efficacy of the enforcement of intellectual property rights, intellectual property trial divisions were set up by the High People's Courts of Beijing, Shanghai and Tianjin, as well as those of the Guangdong, Fujian, Jiangsu and Hainan Provinces and the Intermediate People's Courts and Special Economic Zones within the jurisdiction of those High People's Courts.<sup>98</sup> The intellectual property trial divisions have exclusive jurisdiction over all intellectual property cases not involving criminal or administrative law<sup>99</sup> and are aimed at strengthening judicial enforcement of intellectual property through accumulating experience and expertise in intellectual property cases. China's Supreme People's Court has also established the Intellectual Property Trial Office which is responsible for guiding all judicial issues in intellectual property trials nationwide.<sup>100</sup>

### 6.3 Enforcement in the Chinese Trade Mark Regime

Trade mark infringement may attract both civil and criminal liability in China. Criminal liability is enforced judicially by the relevant People's Court. Enforcement by a wronged party follows a two pronged approach whereby the right holder may elect to follow an administrative or judicial channel.<sup>101</sup> The following will outline the enforcement mechanism with respect to judicial and administrative enforcement of trade marks and will summarise the respective powers of the People's Courts, the SAIC and Public Security Bureau ('PSB') in regard to trade mark infringement. A further channel of trade mark enforcement is provided by the Chinese State Administration of Customs ('Customs'). The enforcement powers of Customs will also be outlined below.

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<sup>98</sup> Ibid 15.

<sup>99</sup> Naigen Zhang, 'Intellectual Property Law Enforcement in China: Trade Issues, Policies and Practices' (1997) 8 *Fordham Intellectual Property, Media & Entertainment Law Journal* 63, 66-67.

<sup>100</sup> Ibid 67.

<sup>101</sup> See *Trademark Law* art 53.

### 6.3.1 Civil Liability in respect of Trade Mark Infringement

#### (a) Judicial Proceedings

An 'interested party' (including licensees and the lawful assigns and successors of the trademark owner)<sup>102</sup> may institute proceedings in the People's Court with jurisdiction in the case of a trade mark dispute.<sup>103</sup> If the party instigating court proceedings is successful in establishing trade mark infringement,<sup>104</sup> civil liability or civil sanctions may be applied by the Court in accordance with the *General Principles of Civil Law of the PRC* and the *Trademark Law*.<sup>105</sup> Such measures include: orders for the cessation of infringing conduct; compensation; fines; and confiscation of infringing goods, counterfeit trade mark representations and materials, tools and equipment used specifically to produce infringing goods.<sup>106</sup> Compensation awarded by the court must be determined by reference to the profit that the infringer has earned because of the infringement or the injury that the wronged party has suffered as a result of the infringement.<sup>107</sup> If it is 'difficult to determine' the illegal profit, or the injury to the wronged party, the People's Court may award damages up to a maximum of RMB 500,000<sup>108</sup> according to the circumstances of the case.<sup>109</sup> Trade mark infringement is also subject to a fine up to a maximum of three times the amount of illegal turnover, or RMB 100,000 if it is impossible to calculate the illegal business turnover.<sup>110</sup> The Court may not apply a civil sanction if the SAIC (or AIC) has already ordered administrative sanctions.<sup>111</sup>

The 2001 amendments incorporated pre-litigation measures into the *Trademark Law*. Now under art 57, there is provision for the People's Court to grant measures amounting to a preliminary injunction (similar to interlocutory injunctions in Australia). Such an injunction is permitted under art 57 where the wronged party can show that the failure to promptly stop an infringement that is being committed or will be committed will cause 'irreparable damage to its or his legitimate rights or interests'. That is, the Court may order cessation of

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102 *Judicial Interpretations Made by the PRC Supreme Court Relating to the Application Law in Hearing Trademark Civil Disputes* art 4.

103 *Trademark Law* art 53.

104 The grounds of trade mark infringement are set out in art 52 of the *Trademark Law*.

105 *Judicial Interpretations Made by PRC Supreme Court Relating to Application Law in Hearing Trademark Civil Disputes* art 21.

106 See *Judicial Interpretations Made by PRC Supreme Court Relating to Application Law in Hearing Trademark Civil Disputes* art 21, and *General Principles of Civil Law of the PRC* art 134.

107 *Trademark Law* art 56.

108 See Appendix 1 for Table of Currency Conversion.

109 *Trademark Law* art 56.

110 *Implementing Regulations of the Trademark Law of the People's Republic of China* art 52.

111 *Judicial Interpretations Made by PRC Supreme Court Relating to Application Law in Hearing Trademark Civil Disputes* art 21.

relevant acts and measures for property preservation. Article 58 gives the Court power to make orders for the preservation of evidence where there is a possibility that evidence will be destroyed or lost or will be difficult to obtain again in the future. Such an order may be contingent on the placement of a guarantee if the Court so orders.<sup>112</sup>

Where the conduct amounting to trade mark infringement is 'so serious as to constitute a crime', the infringer will face criminal prosecution in addition to civil liability incurred.<sup>113</sup>

(b) Administrative Proceedings

A wronged party may request that administrative action be taken by the SAIC, or more likely the local AIC, in the case of trade mark infringement. Administrative enforcement is more widely employed in China than judicial enforcement<sup>114</sup> due to arbitration being considered the most desirable method of dispute settlement by the Chinese. Civil litigation is 'generally speaking an impractical matter in China, as most infringers do so secretly, and flee when trouble arises'.<sup>115</sup>

Administrative actions are also generally more efficient and cost-effective unless damages are sought.<sup>116</sup> Article 54 of the *Trademark Law* requires a case to be transferred to a judicial authority if the case is 'so serious as to constitute a crime'.<sup>117</sup>

Under art 54 of the *Trademark Law*, the local AIC has power to investigate and handle any act of trade mark infringement. Where an infringing act is established, the AIC has power to: 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 representation of the registered trade mark; and impose a fine.<sup>118</sup> Infringement is subject to a fine of a maximum of three times the amount of illegal business turnover, or where that is impossible to determine, RMB 100,000.<sup>119</sup> If the trade mark owner is dissatisfied with the decision of the AIC it may appeal to the People's Court. Otherwise, the AIC may request compulsory execution of its

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112 *Trademark Law* art 58.

113 *Trademark Law* art 59.

114 Zhang, above n 99, 68.

115 Schiappacasse, above n 74, 178.

116 *Enforcement of Intellectual Property Rights*, China Council for the Promotion of International Trade <[http://www.ccpit-patent.com.cn/ip\\_forms/IP\\_Enforcement.htm](http://www.ccpit-patent.com.cn/ip_forms/IP_Enforcement.htm)> at 11 September 2005.

117 *Trademark Law* art 54.

118 *Trademark Law* art 53.

119 *Implementing Regulations of the Trademark Law of the People's Republic of China* art 52.

determination from the relevant People's Court.<sup>120</sup> The AIC also has power to mediate on an amount of compensation if requested by an interested party. If mediation fails, the interested party may institute proceedings in the People's Court with jurisdiction.<sup>121</sup>

The 'functions and authorities' of the AIC when investigating or handling an act of suspected infringement are expressly outlined in art 55 of the *Trademark Law*. The exercise of these powers must be 'according to the obtained evidence of the suspected violation of law or informed offence' and include the power to:

- Inquire of interested parties and to investigate relevant events of the infringement;
- Read and make a copy of the contract, receipts, account books and other relevant materials relating to the infringement;
- Inspect the site where the party committed the alleged infringement;
- Inspect any articles relevant to the infringement; and
- Seize or seal up articles that prove to have been used in the infringement.<sup>122</sup>

The efficacy of raids and seizures in curtailing trade mark infringement are made much of by the SAIC and Chinese government and are often highly publicised when they result in seizures of a particularly high value of infringing goods. They are not however, an effective deterrent, as will be discussed later in this article.

### 6.3.2 Criminal Liability in respect of Trade Mark Infringement

Criminal sanctions for the infringement of intellectual property rights were first introduced in 1993 in the *Supplementary Provisions Concerning the Punishment of Crimes of Counterfeiting Registered Trademarks*.<sup>123</sup> Since then, the amendments have been consolidated into arts 213, 214 and 215 of the *Criminal Law of the People's Republic of China* ('Criminal Law'). Before a case of criminal counterfeiting can be heard by the relevant People's Court, the PSB must initiate the investigation, either via transferral from an administrative agency or of its own accord.<sup>124</sup> The PSB is the principal police organisation in

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<sup>120</sup> *Trademark Law* art 53.

<sup>121</sup> *Trademark Law* art 53.

<sup>122</sup> *Trademark Law* art 55.

<sup>123</sup> *Supplementary Provisions Concerning the Punishment of Crimes of Counterfeiting Registered Trademarks made by the Standing Committee of the National People's Congress* (adopted 22 February 1993, effective 1 July 1993).

<sup>124</sup> Chow, above n 40, 207.

China and has a full range of police powers including the authority to detain and arrest suspects and force entry into locked and secured areas.<sup>125</sup>

For the offence of using a trade mark identical to a registered trade mark on the 'same kind' of commodities, an offender will face a maximum sentence of three years criminal detention, a fine or both, where the 'circumstances are serious'.<sup>126</sup> For the same offence, if the circumstances are 'especially serious',<sup>127</sup> the offender faces a fixed term of imprisonment of not less than three years but not more than seven years and will also be fined.<sup>128</sup>

For the offence of knowingly selling commodities bearing counterfeit registered trade marks, the offender will be liable for a maximum of three years criminal detention, a fine or both, if the sales amount is 'relatively large' or a fine and a fixed term of imprisonment of three to seven years criminal detention if the amount of sales is 'huge'.<sup>129</sup> For the purpose of this provision a relatively large amount of sales is more than RMB 50,000, while a huge amount is RMB 250,000.<sup>130</sup>

The final offence under the Criminal Law is that of forging or making unauthorised representations of a person's registered trade mark or selling such representations.<sup>131</sup> If the circumstances are serious,<sup>132</sup> the offender will be liable

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<sup>125</sup> Ibid.

<sup>126</sup> *Criminal Law of the People's Republic of China* art 213. The circumstances are serious where: the illegal business volume is more than RMB 50,000 or the illegal gains from the infringing conduct are more than RMB 30,000; more than two registered trade marks are being infringed and the amount of illegal business volume is more than RMB 30,000 or illegal gains are more than RMB 20,000; or there are other circumstances of a serious nature. See *Interpretation by the Supreme People's Court and the Supreme People's Procuratorate on Several Issues of Concrete Application of Laws of Handling Criminal Cases of Infringing Intellectual Property (2004)* art 1.

<sup>127</sup> That is: there is an illegal business volume of more than RMB 250,000 or illegal gains of more than RMB 150,000; more than two trade marks are being infringed and illegal business volume is more than RMB 150,000 or illegal gains are greater than RMB 100,000; or other circumstances of an especially serious nature. See *Interpretation by the Supreme People's Court and the Supreme People's Procuratorate on Several Issues of Concrete Application of Laws of Handling Criminal Cases of Infringing Intellectual Property (2004)* art 1.

<sup>128</sup> *Criminal Law of the People's Republic of China* art 213.

<sup>129</sup> *Criminal Law of the People's Republic of China* art 214.

<sup>130</sup> *Interpretation by the Supreme People's Court and the Supreme People's Procuratorate on Several Issues of Concrete Application of Laws of Handling Criminal Cases of Infringing Intellectual Property (2004)* art 2.

<sup>131</sup> *Criminal Law of the People's Republic of China* art 215.

<sup>132</sup> That is, the offender has made more than 20,000 copies, the amount of illegal business volume is more than RMB 50,000 or illegal gains are greater than RMB 30,000; the offender has made more than 20,000 copies, the amount of illegal business volume is more than RMB 50,000 or illegal gains are greater than RMB 30,000; the offender has made copies of two registered trade marks and there are more than 10,000 copies of the two registered trade marks, or the illegal business volume is greater than RMB 30,000 or illegal

for a maximum of three years criminal detention or public surveillance, a fine or both. If the circumstances of the offence are 'especially serious',<sup>133</sup> the offender will be liable for a fixed-term of imprisonment of three to seven years and a fine.<sup>134</sup>

### 6.3.3 Trade Mark Enforcement by the State Administration of Customs

Customs has special administrative powers to protect trade marks including recording trade marks, investigating suspected counterfeited imported and exported goods, detention of suspected infringing products and confiscation of confirmed infringing goods.<sup>135</sup> Article 3 of the *Regulation of People's Republic of China on Customs Protection of Intellectual Property Rights (2004)*<sup>136</sup> expressly states that China prohibits the import and export of goods infringing intellectual property rights, and charges Customs with implementing protection of intellectual property rights pursuant to relevant Chinese law and in accordance with the *Customs Law of the People's Republic of China* ('the Customs Law'). In order for Customs to implement any of the protective measures outlined below, trade mark owners must submit an application to Customs to request their implementation.<sup>137</sup>

The first of the protective measures available to a trade mark owner is the registration of the trade mark with Customs. If accepted, the trade mark will be recorded for ten years, and may be indefinitely renewed every ten years.<sup>138</sup> Secondly, a trade mark owner may apply for the detention of suspected infringing goods at entry and exit points.<sup>139</sup> In order for the suspected goods to be detained, the trade mark owner must submit an application letter and

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gains are greater than RMB 20,000; or other circumstances of a serious nature. See *Interpretation by the Supreme People's Court and the Supreme People's Procuratorate on Several Issues of Concrete Application of Laws of Handling Criminal Cases of Infringing Intellectual Property (2004)* art 3.

133 That is, there are 100,000 copies, an illegal business volume of RMB 250,000 or illegal gains of RMB 150,000; the infringement of two registered trade marks amounting to 50,000 copies, or an illegal business turnover of RMB 150,000 or illegal gains of 100,000; or other circumstances of an especially serious nature Ibid. See *Interpretation by the Supreme People's Court and the Supreme People's Procuratorate on Several Issues of Concrete Application of Laws of Handling Criminal Cases of Infringing Intellectual Property (2004)* art 3.

134 *Criminal Law of the People's Republic of China* art 215.

135 Zhang, above n 99, 69.

136 Promulgated by the State Council.

137 *Regulations of People's Republic of China on Customs Protection of Intellectual Property Rights (2004)* art 4.

138 *Regulations of People's Republic of China on Customs Protection of Intellectual Property Rights (2004)* art 10.

139 *Regulation of People's Republic of China on Customs Protection of Intellectual Property Rights (2004)* art 12.

evidentiary documents sufficient to prove allegations,<sup>140</sup> as well as provide a guarantee for the purpose of indemnifying the owner of the goods in the case of 'inappropriate applications'.<sup>141</sup> If Customs suspect trade mark infringement by imported or exported goods, it is required to notify the trade mark owners, who must then make an application for the goods to be detained satisfying the requirements outlined above within three days.<sup>142</sup>

Customs may deal with the confiscated goods in the following ways:

- transfer them to public welfare utility if they are deemed suitable for public welfare;
- transfer the goods to the trade mark owner in return for appropriate compensation if the trade mark owners desire to purchase the goods;
- if neither of the above are satisfied, auction the goods after removing characteristics of the infringement; or
- if this is not possible, destroy the confiscated goods.<sup>143</sup>

Detention of goods may prove expensive for the trade mark owner, given that they will be responsible for the costs of 'storage, custody, disposal and other incidental costs where Customs have detained the suspected goods'.<sup>144</sup> Such costs may be recovered in damages (as part of reasonable costs for preventing infringement activities), but given the difficulty in pursuing civil litigation,<sup>145</sup> this may not prove a practical option.

Further points to note are that Customs may not detain infringing goods if they do not exceed a reasonable quantity for personal use,<sup>146</sup> and that if Customs suspects criminal activity, the case must be transferred to the PSB for investigation.<sup>147</sup>

<sup>140</sup> *Regulation of People's Republic of China on Customs Protection of Intellectual Property Rights (2004)* art 13.

<sup>141</sup> *Regulation of People's Republic of China on Customs Protection of Intellectual Property Rights (2004)* art 14.

<sup>142</sup> *Regulation of People's Republic of China on Customs Protection of Intellectual Property Rights (2004)* art 16.

<sup>143</sup> *Regulation of People's Republic of China on Customs Protection of Intellectual Property Rights (2004)* art 27.

<sup>144</sup> *Regulation of People's Republic of China on Customs Protection of Intellectual Property Rights (2004)* art 25.

<sup>145</sup> See section 7.3.2 of this article.

<sup>146</sup> *Regulation of People's Republic of China on Customs Protection of Intellectual Property Rights (2004)* art 28.

<sup>147</sup> *Regulation of People's Republic of China on Customs Protection of Intellectual Property Rights (2004)* art 26.

## 7 DEFICIENCIES IN TRADE MARK ENFORCEMENT IN CHINA AND THEIR UNDERLYING CAUSES

Under TRIPS, China is required to implement effective enforcement procedures for the protection of intellectual property rights and to provide civil and criminal remedies that have a deterrent effect.<sup>148</sup> Enforcement of substantive law is the generally recognised area of downfall for the Chinese trade mark regime. Much of the Australian media commentary on the Australia-China FTA has drawn attention to 'serious concerns held by Australia about China's ability to stop piracy'<sup>149</sup> and in fact all forms of intellectual property infringement.<sup>150</sup> Such concerns are certainly justified given the enormous volume and value of counterfeited goods produced in China and the associated loss to trade mark owners. For example, in 2004, the value of Chinese counterfeits entering the United States market alone was US\$134 million.<sup>151</sup>

The problems with enforcement of trade mark laws in China are interrelated and stem from a number of common underlying causes. The following will identify deficiencies within the Chinese enforcement mechanism and will attempt to elucidate the matrix of causal factors which contribute to China's poor record with enforcement of trade mark rights.

### 7.1 Lack of Central Control - Local Protectionism and Corruption

The most significant barrier to effective enforcement of trade mark and other intellectual property rights in China is the inability of the central government to control implementation of laws at the local government level.<sup>152</sup> The power to implement enforcement measures lies in the hands of local government agencies, while judges are responsible for the imposition of criminal punishment and awards of compensation. Since China began opening its economy in 1979,<sup>153</sup> bureaucratic decentralisation was undertaken in the hope of encouraging economic development.<sup>154</sup> The consequences of decentralisation

<sup>148</sup> *Agreement on Trade Related Aspects of Intellectual Property Rights*, opened for signature 15 April 1994, [1995] ATS 38, arts 41 and 61 (entered into force 1 January 1995).

<sup>149</sup> Shane Wright and Felicity Williams, 'Australia to hit China on Tariffs, Quarantine and IP: Vaile', *Australian Associated Press Financial News Wire*, 8 June 2005 accessed via Factiva on 17 August 2005.

<sup>150</sup> See also for example, Tracey Sutherland with Susannah Moran, 'Raw Materials Top Vaile's China FTA Wish List', *The Australian Financial Review* (Sydney), 9 June 2005, 5.

<sup>151</sup> USTR, *2004 Report to Congress on China's WTO Compliance* (2004) 66 <[http://www.ustr.gov/assets/Document\\_Library/Reports\\_Publications/2004/asset\\_upload\\_file281\\_6986.pdf](http://www.ustr.gov/assets/Document_Library/Reports_Publications/2004/asset_upload_file281_6986.pdf)> at 9 September 2005.

<sup>152</sup> Scott McKenzie, 'Global Protection of Trademark Intellectual Property Rights: A Comparison of Infringement and Remedies Available in China versus the European Union' (1998/1999) 34 *Gonzaga Law Review* 529, 561 and Chow, above n 40, 212.

<sup>153</sup> See Craig Dietrich, *People's China: A Brief History* (1986) 257.

<sup>154</sup> Schiappacasse, above n 74, 178.

however have been the inconsistent application and interpretation of laws in different provinces across China, local protectionism and corruption.

There are a number of factors contributing to the tendency of local government authorities and judges to place local interests ahead of the strict application of central government laws. Central among these is the importance of counterfeiting operations to many local economies in China. Trade in counterfeit goods has become a major source of employment and revenue for many local economies, and cracking down on infringement would result in significant job and revenue losses.<sup>155</sup> Compounding this problem is the fact that the performance of local government officials tends to be judged on the basis of economic growth of the local economy, and that control over appointments, dismissals, job transfers, salaries, housing and other benefits for local AIC and PSB officials and judges is in the hands of local government.<sup>156</sup> These factors all create disincentives for local government agencies to take action to enforce trade mark rights.

Additionally, local government agencies and judges face no internal pressure for the enforcement of trade mark rights. Counterfeited goods are inherently cheaper than the genuine article and are therefore in great demand in a low income, developing country like China. The cultural and political history of China, which shapes the values and attitudes of the Chinese, pays scant regard to the institution of private property. Despite having implemented market-oriented reforms since 1979,<sup>157</sup> private ownership of the means of production is fundamentally incompatible with the socialist tradition of which China was, and remains to some extent, a part.<sup>158</sup> Traditional Chinese culture, deriving from Taoist and Confucian teachings, treats creativity as 'a collective benefit to the community and to prosperity'<sup>159</sup> and the property of the community as a whole, while viewing imitation as an integral part of the learning process.<sup>160</sup>

The methods through which local protectionist measures are implemented by officials (and judges in the appropriate case) are the source of many of the other problems with trade mark enforcement. They include, awarding minimal penalties and damages that have no deterrent effect, delaying the investigation of complaints giving time for the counterfeiters to get away or to destroy incriminating evidence, overlooking requests for administrative action, failing to

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155 See Susan Tiefenbrun, 'Piracy of Intellectual Property in China and the Former Soviet Union and its Effects Upon International Trade: A Comparison' (1998) 46 *Buffalo Law Review* 1, 37 and Chow, above n 40, 212.

156 Chow, above n 40, 214.

157 Tiefenbrun, above n 155, 5.

158 However, China now refers to itself as a 'socialist market economy': see *Trademark Law* art 1.

159 Vincent Liu, 'Copyright and Software Protection: Is It Working in China' (2003) 16(1) *Australian Intellectual Property Law Bulletin* 12, 12.

160 Schiappacasse, above n 74, 176.

transfer cases for criminal prosecution and returning confiscated items after the conclusion of administrative enforcement action.<sup>161</sup> Corruption might also result in actions of this kind.

Corruption is a further reason why local officials protect local counterfeiting operations. Corruption occurs when an official has a financial stake in the business or some other vested interest in ensuring the counterfeiter's profitability. The practice of paying 'case fees' in return for the commencement of administrative enforcement actions has become widespread in China,<sup>162</sup> and impedes the just and consistent application of trade mark law, as well as increasing the cost of enforcing trade mark rights for businesses. The fact that judges have no security of tenure and are often paid poor salaries that are determined by their local government, renders them particularly susceptible to bribery and corruption.<sup>163</sup>

## **7.2 Lack of Cooperation and Coordination between Agencies and with Courts**

Lack of coordination among the Chinese trade mark enforcement agencies is also a very significant problem, which exacerbates, and is exacerbated by, problems of local protectionism. For example, the United States Trade Representative has noted a steady decline in the number of cases that administrative authorities forward to the Ministry of Public Security for criminal investigation since China's accession to the WTO in 2001, even in cases of commercial-scale counterfeiting.<sup>164</sup>

The reason for such reluctance to cooperate stems from the economic and status rewards for running a case:

Having authority to combat counterfeiting results in large budgets, more staffing, power and prestige. Raids are also a revenue generating activity because authorities confiscate cash, goods, machinery and equipment, including cars and will then sell the confiscated goods at public auctions. Fines imposed upon counterfeiters are paid into government coffers and some administrative agencies give cash bonuses to personnel who participate in successful raids...

Concurrent and overlapping enforcement authority has created bureaucratic and political interests that discourage cooperation and coordination among various government entities. For example, if the [S]AIC, [Technical Services Bureau]<sup>165</sup> or Customs refers a case to the PSB for criminal investigation, they must then

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161 Chow, above n 40, 215.

162 Ibid.

163 Gregory, above n 41, 328.

164 USTR, above n 4.

165 The Technical Services Bureau administers consumer protection and product quality laws and may be involved in counterfeiting actions that affect those subject matters.

also transfer all confiscated goods, equipment and materials, forgo all fines as well as any bonuses, and have less to report on their annual statistics. A similar situation exists if the [S]AIC were to transfer evidence obtained from the counterfeiter during a raid to a civil court for litigation.<sup>166</sup>

Such a situation results in particular difficulties for those wishing to pursue civil litigation given the inability of a wronged party to produce evidence establishing liability and damage if the administrative agency holding such evidence will not release it.<sup>167</sup> Additionally, some courts will not accept jurisdiction while a case remains before an administrative authority, which will usually take three to six months to complete.<sup>168</sup> The inevitable outcome of such a stance is that evidence 'disappears' in the meantime and civil litigants are left wondering how to proceed.

### **7.3 Inadequate Remedies and Penalties: The Failure of Deterrence**

'The greater the perception that counterfeiting and other forms of commercial piracy are lucrative activities carrying a relatively low risk of punishment, the more attractive the illegal trade becomes.'<sup>169</sup>

Deterrence of illegal counterfeiting operations is an international legal obligation of the Chinese government under TRIPS.<sup>170</sup> It is however, a responsibility that China is failing to achieve.

#### *7.3.1 Administrative Action*

Of the three forms of enforcement action available in China - administrative, civil and criminal - administrative sanctions are the most frequently employed penalty for trade mark infringement. It is generally acknowledged however, that administrative actions are not sufficient to deter counterfeiters.<sup>171</sup> For example, in 1999, the amount of fines imposed by the SAIC for intellectual property infringement totalled less than US\$800 per case.<sup>172</sup> Compared with the multibillion dollar business that counterfeiting undoubtedly is, it is little wonder that such fines are not having a deterrent effect. An example is provided by the Microsoft trade mark case of the early 1990s where the damages award against the infringer, the Shenzhen Reflective Materials Institute, amounted to US\$260.

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166 Chow, above n 40, 216.

167 Ibid 210-211.

168 Ibid 211.

169 Ibid 205.

170 *Agreement on Trade Related Aspects of Intellectual Property Rights*, opened for signature 15 April 1994, [1995] ATS 38, art 41 (entered into force 1 January 1995).

171 See for example, USTR, above n 151.

172 Chow, above n 40, 222.

This is a pitiful sum when one considers that the lost sales to Microsoft was in the order of at least US\$30 million.<sup>173</sup> More than a decade later and administrative enforcement continues to have little deterrent effect as the fines remain relatively low.<sup>174</sup> Accordingly, counterfeiters treat administrative enforcement action as just another cost of doing business and tend to resume illegal production of counterfeit products mere weeks after administrative enforcement action in an attempt to recoup losses from fines, confiscations and business disruption.<sup>175</sup>

One of the biggest contributors to the problem of low fines, is that fines are calculated based on the price charged for the counterfeited good, rather than for that of the genuine product and thus are kept artificially low.<sup>176</sup> Local protectionism and corruption practiced by administrative agencies and judges responsible for trade mark enforcement also operate to erode the deterrent effect of administrative sanctions.

### 7.3.2 *Civil Litigation*

Civil action has not yet presented itself as a significantly viable option for trade mark enforcement in China.<sup>177</sup> It has been noted that 'it is inherently futile for a large brand owner to investigate small scale counterfeiters because damages are inadequate and non-compensatory to the plaintiff'.<sup>178</sup>

Together with the evidentiary difficulties in mounting a civil infringement case noted above, the current status of civil enforcement proceedings in China are certainly not of a calibre to deter trade mark infringers from violating the rights of trade mark owners and pursuing the lucrative trade of counterfeiting.

### 7.3.3 *Criminal Action*

Under art 61 of TRIPS, China is required to provide criminal penalties that are sufficient to have a deterrent effect. The United States Trade Representative has noted that China rarely pursues criminal prosecutions, for a number of reasons, although most importantly from the failure of administrative agencies to transfer cases as discussed above.<sup>179</sup> This is confirmed by China's own statistics

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173 Outlined in Glenn Butterson, 'Pirates, Dragons and US Intellectual Property Rights in China: Problems and Prospects of Chinese Enforcement' (1996) 38 *Arizona Law Review* 1081, 1099.

174 USTR, *2005 Report to Congress on China's WTO Compliance* (2005), 71 <[http://www.ustr.gov/assets/Document\\_Library/Reports\\_Publications/2005/asset\\_upload\\_file293\\_8580.pdf](http://www.ustr.gov/assets/Document_Library/Reports_Publications/2005/asset_upload_file293_8580.pdf)> at 17 January 2006.

175 Chow, above n 40, 222.

176 USTR, above n 151.

177 Chow, above n 40, 208.

178 Le-Nguyen, above n 45, 106.

179 USTR, above n 151.

showing that in 2004 only 0.2% of trade mark cases were transferred for criminal prosecution.<sup>180</sup> A further barrier to pursuing criminal enforcement actions is that the Supreme People's Court have determined that criminal thresholds should be based on the price of infringing goods rather than genuine goods and further that the thresholds for units should be three times higher than those for individuals.<sup>181</sup> Evidentiary difficulties also present a substantial barrier to undertaking criminal prosecution, it being unusual for infringers to issue receipts or keep detailed records of sales.<sup>182</sup> Local protectionist and corrupt officials can also hinder the collection of evidence by delaying investigation of complaints.

### 7.3.4 Inconsistency, Transparency and Technical Competence

The most visible problem plaguing the Chinese trade mark enforcement regime is inconsistency in decision-making and arbitrary enforcement action. This problem stems from a culmination of other problems within the enforcement mechanism including local protectionism, corruption, lack of transparency and lack of technical competence among judges and administrative officials.

Transparency of laws, regulations and judicial and administrative decisions is required of China under art 63 of TRIPS. The United States Trade Representative has commented that 'lack of transparent information on IPR infringement levels and enforcement activities in China continues to be an acute problem'.<sup>183</sup>

Without access to information on the basis of decisions of judicial and administrative bodies, trade mark owners are afforded no predictability or certainty in enforcing their rights.<sup>184</sup> Some brand owners have gone so far as to suggest that prosecutions may turn on the personal attitudes of authorities toward particular defendants.<sup>185</sup> In respect of the availability of judicial decisions, China follows the civil law tradition, whereby the judgments delivered have no precedential value, are not binding on subsequent decisions (that is, the doctrine of *stare decisis* does not apply) and do not state the 'reason' for the judges decision in the way that common law countries such as Australia, the United Kingdom and United States would understand that term. Civil law countries have an essentially statute based legal system, such that the reason for

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180 USTR, above n 174, 72.

181 USTR, above n 149, *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* arts 12 and 15.

182 USTR, above n 151.

183 USTR, above n 4.

184 Chow, above n 40, 213.

185 *Ibid* 212.

judgment will normally entail citing the particular provision of legislation which condemns or exonerates the defendant.<sup>186</sup>

A further element that contributes to inconsistency of decision-making is a lack of technical competence on behalf of both the judiciary and administrative officials. The point has been made that the SAIC lacks the necessary skills in document discovery, that is, tracking the dealings of the counterfeiter through account records of profits and sales, receipts, production orders, links with other associates, back accounts and other financial dealings, that is critical for building a trade mark infringement case.<sup>187</sup> Further, Chinese judges are often political appointees or retired military men<sup>188</sup> who have no experience with intellectual property rights and no legal training, while court staff are often also inadequately trained.<sup>189</sup>

## 8 PROTECTING AUSTRALIA'S TRADE MARK INTERESTS

Sections 3 to 5 of this paper described what an FTA is and how it can be employed to create legal obligations between nations in order to effect regulatory and legislative changes in the domestic economies of those nations. The immediately preceding section 7 outlined the current deficiencies in the enforcement of the Chinese trade mark regime that will need to be addressed in the Australia-China FTA, for the reasons outlined in section 4. It is important to note, however, that the negotiation process itself will provide a real opportunity to encourage China's commitment to improving its enforcement regime. The negotiation process comprises a division of work among four joint Working Groups with the Fourth Working Group responsible for, among others, intellectual property rights issues. Both technical and enforcement issues have been placed on the table for discussion early on in the negotiation process: 'Importantly, China revealed that it is undertaking several reviews of its intellectual property laws, and accepted the Australian offer to provide detailed materials for consideration in the reform of China's intellectual property regime.'<sup>190</sup>

In fact, China's commitment has since been confirmed in a number of public statements by the Premier of China, Wen Jiabao, telecast in various Chinese news reports during May and June in 2006.<sup>191</sup>

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186 Zhang, above n 99, 81.

187 Chow, above n 40, 212.

188 Schiappacasse, above n 74, 179.

189 Tiefenbrun, above n 155, 33-34.

190 Department of Foreign Affairs and Trade, *Australia-China FTA Negotiations, Subscriber Update, 1 September 2005, Second round of negotiations* <[http://www.dfat.gov.au/geo/china/fta/050901\\_subscriber\\_update.html](http://www.dfat.gov.au/geo/china/fta/050901_subscriber_update.html)> at 21 August 2006.

191 Witnessed by the second author during her visit to China during that period.

The following section will suggest some measures that could be employed by the Australia-China FTA to address the identified deficiencies with trade mark enforcement and adequately protect Australian trade marks.

### 3.1 Combatting Local Protectionism and Corruption

As highlighted above, one of the underlying causal factors of local protectionism is the lack of pressure on behalf of the Chinese towards the adequate protection of trade mark rights in China. The Chinese government has recognised that a major factor contributing to this state of affairs is the history of cultural and political non-recognition of intellectual property as a private property right in China. In order to familiarise the Chinese people with the concept of intellectual property and the importance of adequately protecting intellectual property in facilitating growth and development in China,<sup>192</sup> the Chinese government launched a national education campaign in 2004.<sup>193</sup> Measures conducted under the campaign included the initiation of an intellectual property protection 'publicity week' and a TV program called 'Knowledge Fortune' that elaborated on 'trendy' intellectual property issues in depth.<sup>194</sup> This has been enhanced by measures to be taken under *China's Action Plan on IPR Protection 2006* including efforts such as seven dedicated enforcement campaigns involving both the PSB and AICs, the publicising of law enforcement statistics and the adoption of 39 measures for the all familiar raising the public's awareness of intellectual property protection.<sup>195</sup>

Australia should encourage the Chinese government to continue to pursue such educational measures. Education together with a growing recognition on behalf of legitimate Chinese businesses as the economy develops, that adequate intellectual property protection is in their best interests, could result in increasing levels of internal pressure applied to Chinese government at all levels to ensure adequate protection of trade marks.

Another important causal factor of local protectionism and susceptibility to corruption is the structure of the enforcement system. The system leaves agencies and judges at the local level at the mercy of local governments motivated by a number of factors to see counterfeiting operations succeed. China has already enacted some structural reforms which see some enforcement authorities at the local, county and municipal levels reporting to provincial

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192 See Schiappacasse, above n 74, for discussion of the importance of intellectual property protection for economic development.

193 USTR, above n 4.

194 State Intellectual Property Office of the People's Republic of China, *2004 Annual Report*, 49.

195 CTMO, State Administration for Industry and Commerce, *China's Action Plan on IPR Protection 2006* <<http://sbj.saic.gov.cn/english/show.asp?id+460&bm=sbyw>> at 16 May 2006.

authorities, who are authorised to make employment decisions and control financial resources for local government entities.<sup>196</sup> Australia should encourage China to continue such reforms in respect of all local intellectual property enforcement agencies. The establishment of local complaint and service centres under central administration for reporting intellectual property violations referred to in *China's Action Plan on IPR Protection 2006* is another step in the right direction.<sup>197</sup>

## 8.2 Addressing the Lack of Cooperation and Coordination

The problem of lack of coordination on the part of local government agencies is driven essentially by the economic incentives for a particular agency to retain the commission of a case and all evidence related to it. A means of addressing this problem could be to remove such incentives, for example, by remitting money obtained through the sale of infringing products or their means of production (which would constitute the evidence of a particular case) to a centralised agency at either a central or provincial government level.

Another measure to address lack of cooperation could be clearer prescriptions of the way in which administrative agencies should interact with the courts and among themselves. For example, legislative prescriptions as to when a civil case may be heard in the event of the case already being dealt with at an administrative level, provisions for dealings with and transmission of evidence and defined procedures for the referral of cases from an administrative agency to the PSB for criminal investigation, would substantially decrease the leeway that officials have in their dealings with other authorities and could improve the coordination of such bodies. This would appear to be in line with the initiatives outlined in relation to institutional building at point three of *China's Action Plan on IPR Protection 2006*.<sup>198</sup>

## 8.3 Reviewing Inadequate Penalties to Improve Deterrent Effect

It is generally recognised, that criminal punishment is the 'single most effective deterrent against counterfeiting'.<sup>199</sup> The thresholds outlined above in respect of criminal prosecution for trade mark infringement were lowered from their previous level by the Supreme People's Court in December 2004 in response to US pressure to boost the number of intellectual property infringement cases that can result in criminal liability.<sup>200</sup> Having only been in force for a short period of time, it is difficult to know whether the provisions will result in a significant increase in the number of criminal prosecutions for trade mark infringement.

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196 Chow, above n 40, 215.

197 CTMO, above n 195.

198 Ibid.

199 Chow, above n 40, 217.

200 USTR, above n 4.

However, a commitment to a stronger criminal enforcement regime for intellectual property protection should be sought from China. In terms of specific prescription, Australia should perhaps adopt a 'wait and see' attitude until the effect of the lowered criminal thresholds can be measured. Australia may like to raise with China, the possibility of equating the thresholds for 'units' with those of individuals. A further significant step in boosting criminal investigation of trade mark violations would be to increase the volume of cases transferred to the PSB from administrative agencies as addressed above in relation to the improvement of coordination between agencies.

Given the predominance of administrative enforcement measures in China, the inability of fines imposed by administrative agencies to deter counterfeiting is of particular concern. Australia will need China to commit to a significant increase in the levels of administrative fines. This could be achieved by the imposition of mandatory minimum fines and the provision for the calculation of fines on the basis of the price of genuine, not counterfeit products. Additionally, the amount of the fines and their imposition should be publicised in order to improve the efficacy of the fines as a deterrent.

#### **8.4 Dealing with Inconsistency – Transparency and Technical Competence**

The problem with lack of transparency in China creates uncertainty for Australian businesses that seek to enforce their intellectual property rights in China. Transparency is required to determine the extent of the enforcement problem in China and measure the impact of legislative reforms. TRIPS provides an avenue for concerned nations to request information that would clarify enforcement efforts by a perceived recalcitrant nation. Such a request is made under art 63.3 of TRIPS and as at the end of 2005 three nations have invoked the operation of this article against China, namely, the United States of America, Switzerland and Japan.<sup>201</sup> Australia, on the other hand, has an alternative opportunity given the negotiations for an Australia-China FTA. Australia could require a commitment from China for greater transparency and consistency in enforcement efforts such as providing Australia with regular and accurate enforcement statistics, relevant laws and the bases of administrative and judicial decisions.

China has already initiated some training programs to improve the technical competence of judges and administrative officials when dealing with intellectual property cases.

Under *China's Action Plan on IPR Protection 2006*, 21 targeted training programs are aimed at achieving this.<sup>202</sup> Further, the creation of the specialised

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<sup>201</sup> USTR, above n 174, 72.

<sup>202</sup> CTMO, above n 195.

intellectual property divisions in some Chinese People's Courts have also contributed toward the accumulation of knowledge and experience in dealing with intellectual property. Australia should aim to offer support and cooperation in further educating Chinese judges and officials about the protection of intellectual property rights and seek a commitment from China to improve the technical competence of those in charge of enforcing intellectual property rights in China. Calculating adequate damages awards could be included as part of this technical training.

### 8.5 Overarching Policy Direction

'The current system in the PRC emphasises public enforcement... the [S]AIC is focused on imposing fines and penalties on the counterfeiter and is not focused primarily on protecting the rights and interests of the trade mark owner.'<sup>203</sup>

The public orientation of China's intellectual property enforcement regime becomes obvious after considering the relatively small and ineffectual role that civil proceedings currently play in the system. In the first place, there is not much incentive for intellectual property owners to bring civil proceedings given the uncertainty of result and difficulty in gathering evidence. Secondly, even if the case is 'won', the award of damages is likely to not even begin covering the damage sustained. Such a state of affairs differs markedly from the Australian system, whereby private enforcement of intellectual property rights, and adequate compensation for loss suffered, underpins the system. The disparity between the two systems is readily explainable given that the Chinese have only recently recognised intellectual property as the private proprietary right of an individual. However, given that intellectual property is in fact fundamentally a private right, as China advances, the focus of the Chinese intellectual property regime should shift towards not just the prevention of infringement, but also, the adequate compensation of wronged intellectual property owners. Such an orientation necessitates a more prominent role for Chinese courts, a role which, at the present time is probably beyond the resources of the Chinese legal system.<sup>204</sup> Australia should pursue a commitment from China to shift the long-term orientation of the intellectual property enforcement system towards the adequate compensation of trade mark owners as private right holders.

### 8.6 Implementation via the Australia-China FTA

The prescriptions outlined above related to specific measures that could be employed in China to combat the problems identified above in Section 7. By comparison, FTA provisions are framed in the language of mutual obligation and usually at a level of generality that leaves the specific implementation of obligations up to the respective parties. It must be remembered, that the nature

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203 Chow, above n 40, 211.

204 Ibid.

of an FTA is a *negotiated agreement*, one party cannot expect to dictate to another, what its laws should be; they must be agreed. Some of the above measures are suggested as ends which Australia should attempt to reach in their formulation of the Australia-China FTA, rather than as a prescription of the content of the agreement. This is in acknowledgement that an Intellectual Property chapter in a FTA generally, and particularly between Australia and China, is but one aspect of a more comprehensive attempt to obtain greater market access for Australian commodities. Accordingly, more general statements of mutual commitment may be the extent to which agreement can be obtained. For example, a mutual expression of a commitment to strengthening the deterrent effect of criminal sanctions in trade mark infringement cases (or intellectual property infringement cases in general) could be included directly in the text of a FTA. Specific suggestions as to how this may be achieved, for example, introducing legislation directing the transfer of cases to the PSB as mentioned above, may not however be well received by Chinese negotiators for inclusion in the text of the Agreement.

However, China's response to-date on issues pertaining to its intellectual property regime with respect to Australia-China relations would appear to be more positive, as noted above. Accordingly, the mechanism for the setting of penalties may be an issue that can be the subject of negotiation and inclusion in the text of the FTA. The ready comparison provided by Australia's penalty provisions, such as section 149 in the *Trade Marks Act 1995* (Cth) could be used in devising a mutually acceptable mechanism for the setting of deterrent criminal sanctions.

This brings us to the issue of determining adequate compensation or damages under the infringement proceedings brought by the trade mark holder through the civil courts. It would be remiss of Australia to not use the opportunity of the FTA negotiations to suggest a mechanism for determining adequate damages. The current system in China mimics an account of profits method which clearly falls short of the real damage to the trade mark holder. This is primarily due to the profits being determined on the basis of the sale price of the counterfeit goods rather than the value of the legitimate or non-counterfeit goods. Perhaps a general statement only is needed to identify the matters that should be taken into consideration when calculating those damages.

Further, it would not be unreasonable to expect the technical deficiencies in China's substantive trade mark law to be corrected by the use of the FTA recognising the same levels of protection afforded under Australian law. For example, the FTA would provide the accepted definition of a trade mark to include both the visual and non-visual signs noted in section 6 of the Australian *Trade Marks Act 1995* (Cth).

If these specific measures are not successfully negotiated, there are a couple of ways in which Australia may be given some voice and influence in the

implementation of such measures to reform the Chinese intellectual property enforcement system. The first is a commitment by Australia under the FTA to contribute to the ongoing education and training of Chinese judges and intellectual property officials through exchange and other programs. This would provide Australia with the opportunity to engender comprehension of the nature of intellectual property as a private individual right; perhaps facilitate the imposition of adequate awards of compensation; and improve other issues in the technical application of intellectual property laws. While this is not a new idea and has in fact been alluded to in the early stages of negotiations, it is an important investment in future relations and co-operation on intellectual property rights issues particularly as the numbers of registration and enforcement personnel are ever increasing in China from the national down to the local levels of administration.

Another method of integrating Australian suggestions for specific reforms into the FTA is the creation of an ongoing working party on intellectual property enforcement under the Agreement in the same vein as the Standard Technical Working Group on Animal and Plant Health Measures established under the Australia-US Free Trade Agreement ('AUSFTA').<sup>205</sup> Such a working group could provide a forum for raising specific issues with intellectual property enforcement and the consideration of specific measures that could be introduced to resolve such problems.<sup>206</sup> Similarly to the Working Group on Animal and Plant Health Measures, a function of the intellectual property working group could be the establishment of a program incorporating specific work plans for the collaborative discussion and resolution of identified problems.<sup>207</sup> In relation to the prescriptions outlined above, measures such as the centralisation of revenue from enforcement activities, restructuring such that local enforcement agencies report to provincial level authorities and the promulgation of rules regarding the transfer of cases between enforcement agencies could be suggested and perhaps implemented in this way. China's 2006 Action Plan<sup>208</sup>

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205 *Australia-US Free Trade Agreement ('AUSFTA')*, 18 May 2004, [2005] ATS 1, Annex 7-A (entered into force 1 January 2005). It is still too early to evaluate the success of the Standard Technical Working Group under AUSFTA. However, it has been noted that the purpose of such a group is to improve understanding of the application of measures and regulatory frameworks (Senate Select Committee on the Free Trade Agreement between Australia and the United States of America, *Chapter 5 - Sanitary and Phytosanitary Measures*, Parliament of Australia <[http://www.aph.gov.au/Senate/committee/freetrade\\_ctte/report/final/ch05.htm](http://www.aph.gov.au/Senate/committee/freetrade_ctte/report/final/ch05.htm)> at 17 August 2006).

206 A similar arrangement has been in place since 2004 between China and the United States of America through the Joint Commission on Commerce and Trade Intellectual Property Rights Working Group ('JCCT IPR Working Group'). This committee has been successful in bringing about action and, albeit incremental, change in the Chinese intellectual property regime.

207 *Australia-US Free Trade Agreement*, 18 May 2004, [2005] ATS 1, Annex 7-A (entered into force 1 January 2005). See also ss A.6 and B.

208 CTMO, above n 195.

reinforces not only China's commitment to improving its enforcement regime, but also the potential for the success of a working group of this nature.

## 9 CONCLUSION

Despite the existence of multilateral agreements such as those operating under the WTO, the liberalisation of free trade and investment between nations in more recent times has been nurtured through the device of bilateral free trade agreements. This article has considered but one aspect of such agreements in the context of the proposed Australia-China FTA, namely the intellectual property provisions, and more specifically the protection of trade marks. The implications for Australian interests are significant, particularly in the face of a troubled intellectual property enforcement regime in China.

Despite fast moving and extensive reform, the Chinese trade mark regime has continually failed to quash the practice of trade mark counterfeiting that is so rife within China. The reform has left China with substantive trade mark laws that are essentially compliant with the strictures of TRIPS, however, the deficiencies in enforcement of those laws continues to prevent China from controlling its massive trade mark infringement problem. In negotiating a FTA with China, Australia must be apprised of and fully understand China's enforcement problems in order to arrive at appropriate means to curb trade mark infringement. This article has suggested a number of measures to improve enforcement of intellectual property rights in China.

While the concept of mutual benefit is a good starting point for any FTA, more specific commitments are needed in the drafting of the intellectual property provisions of the proposed Australia-China FTA. Recognition of the importance of continued education and training of those implementing intellectual property laws should be explicit for both countries, however, Australia should commit to providing Chinese officials and judges with technical education and training. A broad reiteration of the commitment of both countries to meeting their international obligations such as those found under TRIPS would incorporate a commitment to achieving adequate deterrence of intellectual property infringement and a commitment to ensure transparency of enforcement systems including access to statistical information, reasons for decisions and relevant legislation and regulation.

However, to see these commitments through to fruition, something more than written affirmations are required. Accordingly, this article specifically proposes a number of more technical provisions that may assist in improving the outcome of enforcement procedures and finally proposes that a working party on intellectual property enforcement should be established under the Australia-China FTA in order to provide Australia the opportunity to influence the continuing development of the Chinese intellectual property system and the

improvement of the administration and enforcement of intellectual property rights.

## APPENDIX ONE

**Table of Approximate Currency Conversions (nearest 100 USD)<sup>209</sup>**

Chinese Yuan RMB	United States Dollars
20,000	2,500
30,000	3,700
40,000	5,000
50,000	6,200
100,000	12,400
150,000	18,600
200,000	24,800
250,000	30,900
500,000	61,800

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<sup>209</sup> China Currency Calculator <<http://www.greenwichmeantime.com/time-zone/asia/china/currency.htm>> at 18 September 2005.