Study on the main controversial issues of "knowingly buying counterfeit goods"

Wang Yuwen

Shandong University of Finance and Economics, Jinan, China

Abstract: Since its emergence, the issue of "buying counterfeits with knowledge" has been widely concerned by the academic community. This paper summarizes and analyzes the main controversial issues, such as whether the "buyer of fakes" is a consumer, whether punitive damages can be applied to the "buyer of fakes", and whether the "buyer of fakes" is prohibited or restricted, and proposes the shortcomings and new aspects of the research.

Keywords: Knowingly buying counterfeits; Consumers; Punitive damages

1. Introduction

In 2013, the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (from now on referred to as the Consumer Law) was amended from "double compensation" to "triple compensation", which has led to an increase in the number of "knowingly buying counterfeits". This has led to acts of "buying counterfeits with knowledge of the counterfeit" and increasing specialization of the forms. The provisions of Article 2 and Article 55 of the Consumer Law have been discussed in academic circles, and relevant research results are abundant. Still, a unified view has not yet been formed. In this paper, through the recent literature, we found that the focus of the controversy of "buying counterfeit goods with knowledge of the counterfeit" is mainly on whether the "buyer of counterfeit goods with knowledge of the counterfeit" is a consumer, whether the "buyer of counterfeit goods with knowledge of the counterfeit" can apply to punitive damages. The main focus of the controversy is whether the "buyer of counterfeit goods" is a consumer, whether punitive damages can be used for the "buyer of counterfeit goods", and whether the "buyer of counterfeit goods" is prohibited or restricted. To follow up on the issue of "knowingly buying counterfeit goods", this article compares the views of relevant scholars as follows.

2. Whether a "person" who knows a counterfeit is a consumer

Therefore, the consumer's identity is the logical starting point for the application of punitive damages in the case of "knowingly buying counterfeit goods", i.e. only if the "knowingly buying counterfeit goods" is a consumer can the punitive damages under the Consumer Law be applied. This means that punitive damages under the Consumer Law can only be applied if the person who knows the counterfeit is a consumer. How to identify a consumer? Article 2 of the Consumer Law provides that the Law protects the legitimate rights and interests of consumers who purchase or use goods or receive services to live and consume. The main research on this issue is to determine whether a consumer is a "consumer of life" or not, and the literature on this issue is divided into two opinions: negative and positive.

2.1. Negative said

Firstly, most scholars, represented by Professor Liang Huixing, believe that the "buyer of counterfeit goods" is not a consumer because the subjective purpose of a consumer should be to satisfy their consumer needs and then make a judgment based on the rule of thumb. The goal of a "buyer of counterfeit goods" is to obtain punitive damages, which is obviously not for the purpose of living and consuming, and is not in line with the legislative intent, and therefore not a consumer.

Secondly, it has been argued that "buyers of counterfeit goods" are not in a vulnerable position. Consumers are in a disadvantaged place compared to operators due to factors such as information

asymmetry, weak bargaining power, and economic disparity. A consumer group is a divisible group, and due to the differences in knowledge and financial resources of different consumer groups, there will be some consumer groups who, by their own advantages, stand out from the disadvantaged position and are as strong as, or even more robust than, the operators. If these consumer groups still enjoy the consumer privileges under the Consumer Law, they will be over-protected.

Finally, the purpose of Consumer Law is to protect the legitimate rights and interests of vulnerable consumers, but "those who buy fakes" buy goods for profit. To a certain extent, it can be said that "fighting fakes" is their means to get rich. The protection of those who buy counterfeit goods will encourage people to get something for nothing and to be greedy, and this is against the principle of honesty and credit, and social morality, which will make the relationship between consumers and operators more polarized and will also cause the negative consequences of exploiting the loopholes of the law and lower the moral standard of society.

2.2. Definitely say

The affirmative school, represented by Professor Wang Liming, believes that whether a "buyer of counterfeit goods" buys them for "living and consuming" is not expressed through personal purposes. Still, through objective behavior, i.e., as long as the goods are not bought for secondary sale, they should belong to the consumer. The cost of determining the personal purpose is too high, and in most cases, the inner motive is challenging to decide on, and "knowledge" should be knowledgeable. "It cannot be presumed that the purchaser is aware of the falsity. If they are not recognized as consumers, a contradiction will arise - the goods purchased can only be consumed by themselves, which is the actual consumer.

Secondly, in many cases of "buying counterfeit goods knowingly", the amount of compensation is entirely affordable by the merchant, comparable to the degree of fault in the sale of counterfeit goods, and does not exceed the necessary limit. Some scholars, such as Mr. Huo Shan, Mr. Li Xue Yin, Mr. Liu Junhai, and Mr. Liu Chuntian, believe that buying counterfeit goods can maintain social order, combat the sale of counterfeit goods and save the enforcement costs of the regulatory authorities. This ultimately benefits consumers and society at large. Although "counterfeiters" have more information and knowledge than ordinary consumers, they have high risks, uncertain timing, and costs of realizing their value. "They are still in a vulnerable position compared to the operators.^[2] The protection of "counterfeiters" by law will not be contrary to the original legislative intent.

Finally, "buying fakes" mostly occurs in supermarkets, shopping malls, and online shopping, where the number of genuine goods is far greater than fakes, and it is difficult to make large volume transactions, even in online shopping, where merchants run "buy more, get more" campaigns to attract customers. Even in online shopping, where merchants engage in "buy more, get more" campaigns to attract customers, there is usually a quantity cap.^[3] Therefore, based on the small volume of transactions and the retail price of the goods, the "buyer of fakes" should be the consumer.

However, some scholars hold the opposite view that the determination of the qualification of the "buyer of counterfeit goods" is a prerequisite for the application of punitive damages, and believe that in judicial practice, whether the "buyer of counterfeit goods" is a consumer or not is not relevant to punitive damages. The reason is that according to the provisions of the burden of proof, if the "buyer of counterfeit goods" proposes to buy counterfeit goods if the operator cannot prove that there is no problem with his goods or services, he should bear the punitive liability, which can directly override the determination of the subject qualification of the "buyer of counterfeit goods". The question of the capability of the "buyer who knows the counterfeit". "Professor Guo also argues that the key to the issue is not whether the "buyer of counterfeit goods" is a consumer because even if they are a consumer, they are not protected by the Consumer Law. The measure should be whether the purchaser has complied with the principle of honesty and credit.

In summary, the reason for the controversy about whether a "buyer who knows a fake is a consumer" is that the Consumer Law does not clearly stipulate this. In 2016, the State Administration for Industry and Commerce issued the "Regulations on the Implementation of the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (Draft for Examination)", which clearly states in Article 2 that "this regulation shall not apply to those who purchase or use goods or receive services to make profits". This is clearly a response to the act of "knowingly buying fakes", but the regulation has not yet been formally implemented. There will be a further understanding of this issue when it is implemented.

3. Whether punitive damages apply to "knowingly buying a fake"

The United Kingdom was the first to recognize the punitive damages system and strictly limit its scope of application; the development of punitive damages in the United States has had many twists and turns and has been relatively perfect after more than two centuries of development, while in Germany it has been rejected and will cause great controversy once the courts apply the system. The story of punitive damages in foreign countries has a long history and is relatively perfect, which has particular significance for developing the punitive damages system in China.

In China, academics believe that only consumers under the Consumer Law can have the opportunity to apply punitive damages, and having resolved the question of whether a "person who buys a fake is a consumer," the next step is to discuss another controversial issue - whether punitive damages can be applied. Article 55 of the Consumer Law provides that Article 55 of the Consumer Law provides for punitive damages, which are tilted protection for consumers. The main point of contention regarding punitive damages is whether the operator has committed "fraud", which is the basis of the system of punitive damages for "knowingly buying a fake", i.e., the "fraudulent act" provided for in Article 55 of the Consumer Law. Whether the "fraud" in Article 55 of the Consumer Law is consistent with the "fraud" in civil law, i.e., whether the "fraud" in the Consumer Law is based on the purchaser's ignorance. On whether punitive damages apply to the "purchase of a fake", the academic community can be divided into negative and affirmative claims.

3.1. Negative view

Scholars who hold this view believe that "those who buy counterfeit goods knowingly" are not consumers and, therefore, cannot apply the provisions of the Consumer Law on punitive damages. According to Article 148 of the Civil Code, the elements of fraud include: firstly, the seller intends to defraud; secondly, the seller has committed fraud; and thirdly, the seller has committed fraud. Secondly, the seller has committed a fraudulent act; thirdly, the buyer has fallen into a misunderstanding due to the seller's conduct; and fourthly, the consequences require the buyer to perform a civil legal act based on the misconception. The above four conditions constitute fraud in civil law, but the "buyer who knows that the goods are counterfeit" belongs to knowingly buying them to make a claim, which does not meet the elements of "fraud" and therefore cannot apply punitive damages. There is also a view that Consumer Law, as a special law of civil law, should follow its basic principles and that a "buyer of counterfeit goods" who deliberately purchases and claims for compensation knowing that the goods are counterfeit violates the principle of honesty and credit, and is therefore not protected by the Consumer Law and cannot be subject to punitive damages.

In the negative, punitive damages under Consumer Law cannot be applied to the buyer who knows that the goods or services are defective, so how should he or she enforce their rights? "If the buyer knows that the goods or services purchased are defective but still purchases them, the operator will be exempted from liability for defects; however, if the defects in the goods or services provided by the operator violate national compulsory regulations, the buyer cannot be exempted from liability regardless of whether he knows of the defects. However, if the defects in the goods or services provided by the operator are contrary to the mandatory provisions of the State, the liability cannot be excluded, regardless of whether the buyer knew of the defects.

3.2. Affirmation

Most scholars analyze the elements of "fraud" as stipulated in the Consumer Law and the details of "fraud" in the Civil Code to reach a conclusion. According to Article 148 of the Civil Code, "fraud" requires four parts, which have been shown above and will not be repeated here. The textual interpretation of Article 55 of the Consumer Law requires only that the operator has committed "fraud" for punitive damages to apply, and the form of the provisions of the law is the operator, so the interpretation of "fraud" should also be made from the side of the operator. The performance of the term "fraudulent conduct" should also be made from the operator's side, which would be a deviation from the provisions of the law if considered from the consumer's perspective. [4] Accordingly, some scholars have pointed out that fraud under Consumer Law is a unilateral act and that there is no causal relationship between fraud and the purchase of counterfeit goods, nor is knowledge of counterfeit goods a necessary condition for fraud. [5] It is not logical to deny the existence of a breach by the operator because the "buyer" knows that the goods are fake and buys them.

It should be clear that the purpose of Consumer Law is to protect the vulnerable position of consumers and to safeguard their legitimate rights and interests and that the provisions of the Civil Code cannot be applied to the question of whether or not an operator has committed "fraud", otherwise the meaning of the Consumer Law would be lost. At the same time, a comparison with other relevant laws shows that Article 148 of the Food Safety Law of the People's Republic of China does not contain the word "fraud" in its provisions on punitive damages. Therefore, according to Article 55 of the Consumer Law, punitive damages can only be applied if the operator has committed a fraudulent act and does not require the consumer to have been caught in a mistake and to have made a wrong intention as a result of the operator's conduct.

From the perspective of judicial practice, the burden of proof should be on the operator to prove that the "buyer" knows that the goods are counterfeit. Still, there are often difficulties in establishing the subjective content, and ultimately the court will find that the operator has fraudulent behavior, and punitive damages should be applied. Secondly, the principle of honesty and credit is based on the premise that the parties are on an equal footing and that there is an inherent information inequality between the consumer and the operator, which is not in line with the premise of the principle of honesty and credit. It is unreasonable to expect consumers to comply with this principle when there has been "fraud" on the operator's part. [6] Moreover, as long as the purchase is not made for an unlawful purpose, it should be regarded as bona fide and honest. Therefore, it is argued from several angles that punitive damages can be applied in the case of "knowingly buying a counterfeit".

4. The unique nature of punitive damages in the sale of food and pharmaceutical products for "knowingly buying a counterfeit"

The punitive damages in the Law on the Protection of Consumer Rights and Interests are for general consumer issues. At the same time, the Food Safety Law and the Drug Administration Law have special provisions on the application of punitive damages for "knowingly buying counterfeits", which differ from the general requirements in terms of objective criteria and burden of proof for the application of punitive damages.

4.1. Objective Rules for Determining the Application of Punitive Damages to "Knowingly Buying Fraud" in Food and Drug Matters

In the Sun Yinshan case, the court's decision was based on the premise that the operator had a statutory duty. The operator's breach of that duty was a minor premise, concluding that it should be held liable for punitive damages. The court thus presumed that the seller's failure to clean up the product regularly was known to the seller and found that the defendant satisfied the element of knowledge by way of objective imputation of liability. Some scholars believe that interpreting "knowledge" as a subjective element of punitive damages in food and drug cases is not equivalent to a personal fault but must be limited to subjective intent. This means that the "knowledge" of the seller of food and drug products is divided into intent, gross negligence, and general negligence in private Law and that "knowledge" is equivalent to meaning. In the Sun Yinshan case, the subjective State of Auchan Supermarket's Jiangning shop selling expired food can be divided into three situations: firstly, Auchan Supermarket sold expired food to obtain abnormal interests in the market, which is obviously a subjective intentional situation. Secondly, the failure of Auchan Supermarket to remove the expired products from the shelves promptly due to management negligence is a case of gross negligence. Thirdly, if the expired food products were shelved due to the manufacturer's error, this would be a common failure. The verification scholars advocate that subjective knowledge is equivalent to personal intention and will be excluded from gross negligence. General negligence, the chaos management is not timely cleaning up expired food, and the producer's fault caused by the food expired behavior is not responsible. The judicial practice process is challenging to prove the circumstances of gross negligence. Food and medicine for the severity of the personal injury are not allowed.

Punitive damages are based on objective criteria, mainly referring to the breach of the legal obligations of food and drug producers and sellers, and their liability for punitive damages is legally justified. The provisions on food safety standards and the legal situation of counterfeit and substandard drugs are mandatory provisions of the Law. In a dispute over food and drug products, there is no need to consider whether the seller "knew" or whether the consumer was informed, as the operator is liable. ^[7]Throughout the Food Safety Law and the Drug Administration Law, regardless of the motive or purpose of the consumer in purchasing goods or services and regardless of whether he or she has

knowledge of the information, as long as he or she has purchased unsafe food or fake or substandard drugs, he or she should be subject to the above-mentioned laws, and "knowingly buying a fake" In the end, the person who "buys a fake" can claim punitive damages based on the above legal provisions. Therefore, the Sun Yinsan case court awarded the defendant ten times damages for breach of statutory duty by the seller, which was correct in its application of the Law and established the right of those who "know the counterfeit to buy the counterfeit". The court's decision in Sun Yinshan to award the defendant ten times the amount of damages for breach of statutory duty by the seller was correct in its application of the Law and established an objective standard for punitive damages in food and drug disputes.

4.2. Reversal of the burden of proof in cases of punitive damages for "knowingly buying a fake" in food and drugs

The allocation of the burden of proof plays a vital role in applying punitive damages by the courts. The Food Safety and Drug Administration Law does not currently adopt explicit legal provisions on the burden of proof. Still, the issue of "who is the party to prove the specific facts" is an issue of evidence that runs through the beginning of the litigation, or It is a question that is generally not avoided at the beginning of a lawsuit or in the course of every investigation of evidence. The same is true of proving that food products do not meet safety standards and that medicines are counterfeit or substandard. However, in the course of judicial practice, judges are ambivalent about allocating the burden of proof to prove that food does not meet quality requirements and that medicines are counterfeit or substandard, which is related to the ambiguity and fragmentation of the current legal provisions in China.

The general principle of proof for parties in civil relations is "whoever claims, whoever proves". At the same time, the Consumer Rights and Interests Protection Law provides that the burden of proof is on the operator for defects in durable goods. Article 5 of the Judicial Interpretation of the Food and Drug Law provides for the burden of proof on the producer and the seller. It is clear that, based on the specificity of the food sector, the allocation of the burden of proof gradually tends to shift from positive to inverted. However, in judicial practice, some judges have held that food safety standards should be borne by the plaintiff, for example, in the Dundee online shopping contract dispute.4 The court held that the plaintiff should bear the burden of proving that the food was unsafe, which means that it should bear the consequences of failing to prove it when the plaintiff cannot do so. Some judges have also held that food safety standards should be borne by the operator, for example, in the case of Li Liping and Xi'an Yanta District Wu Haonan Daily Goods Trading Company in an online shopping contract dispute, the court of first instance and the court of second instance differed in their approach to the allocation of the burden of proof as to whether the food complied with the safety standards, with the court of first instance holding that the consumer should provide proof of non-compliance with food safety standards from a statutory inspection body or The Court of First Instance held that the consumer should provide a certificate from a statutory inspection body or a conclusive opinion from a food safety authority to prove the facts of his or her claim. The Court of Second Instance held that placing the burden of proof on the consumer would inevitably increase the burden on the average consumer, which would be inconsistent with the Law and would have a detrimental effect on the deterrence of food safety offences. In the light of the aforementioned judicial decisions, where the Law imposes statutory obligations on producers and sellers, the operator should be required to prove that he or she has fulfilled his or her obligation to inspect the food produced or sold to ensure that the food produced or sold complies with the food safety standards set by the State. In addition, the producer or seller, as a professional organization, should have the capacity to carry out tests and be responsible for knowing the indicators of the food it produces or sells. It is much less difficult for the professional operator to prove this than for the consumer.

The Drug Administration Law is an administrative law code, which is mainly the basis for enforcement by the administrative authorities. Still, it also provides the right to claim punitive damages for counterfeit and substandard drugs, without specific provisions on the burden of proof. The Judicial Interpretation of the Food and Drug Administration allocates the burden of proof to the consumer only regarding medicines that have caused substantial damage. At the same time, there are no specific provisions in the Drug Administration Law on the burden of proof for producers and sellers of counterfeit and substandard medicines. The quality of medicines has caused confusion in the market, and it is the State's determination and attitude towards the management of medicines to strengthen the management of their production and use and to punish those who violate the Law. The reversal of the burden of proof will not only reduce the difficulty for consumers to defend their rights, and thus play a deterrent function of punitive damages to illegal operators, but also substantially strengthen the legal

obligations of drug manufacturers and sellers. The Food and Drug Judicial Interpretation provides for applying the provisions of cosmetics and health food disputes. Similarly, the allocation of proof for food products can also be used as a reference for the burden of proof for drugs.

In summary, the production and sale of food that does not comply with food safety standards and fake and substandard drugs can seriously endanger the lives and health of the people, while "knowing the fake and buying the fake" is the legal means to curb the role of fake and substandard drugs and unsafe food, therefore, in the allocation of the burden of proof, according to the provisions of the Law and legislative considerations, will prove In this regard, the burden of proof should be allocated to the operator to support the punitive damages for those who "know the counterfeit and buy the fake". In this way, the role of punitive damages can be better exploited to curb the production and sale of substandard food and drug products, so that the Food Safety Law and the Drug Administration Law can give full play to the value of protecting vulnerable consumers, while also meeting the original purpose of the allocation of the burden of proof as stipulated in the Food Safety Law.

The safety of food and drug issues is directly related to the lives and health of the people, and to increase the punishment for violations of food and drug safety obligations to gradually curb the circulation of unsafe food and drug, so to determine the special prerequisites for the application of punitive damages for food and drug to ensure the rights and interests of consumers is practical and feasible. The "know-your-fake" people are more professional in fighting against fake drugs and unsafe food. The punitive compensation system should be applied to food that does not meet quality and safety standards and to fake drugs and unsafe drugs, regardless of whether they also constitute sales fraud, to protect the diversity of consumer rights in the food and drug field and to combat the effectiveness of illegal operators. At the same time, the safety standards of food and drug and the quality standards of drugs should be proved by the operators, only in this way can the function of the punitive compensation system be better played, reduce the difficulty of consumers' rights, and at the same time further strengthen the punishment of illegal acts in the field of food and drug, to protect the people's lives and health of the real interests.

5. Prohibition or restriction of "knowingly buying counterfeit goods

"A decision against or for "knowingly buying counterfeit goods" cannot be made through one or a few aspects alone. To reach a more reliable conclusion, it is necessary to evaluate "buying knowingly" as a whole, i.e. whether it should be prohibited or restricted. It has been more than twenty years since the emergence of "knowingly buying counterfeit goods", and the attitude of the academic and judicial circles towards it has been repeated, going through a process of affirmation from 1995 to 1997, negation from 1998 to 2007, reaffirmation from 2007 to 2015, and negation again from 2016 to the present. [8] The prohibition or restriction of "knowingly buying counterfeits" requires focusing on the impact of "knowingly buying counterfeits".

Things are two-sided, and the impact of "knowingly buying a fake" should also be divided into positive and negative. No matter how obvious the negative impact is, the positive impact definitely exists. The positive impact is mainly reflected in: firstly, it is conducive to the purification of the market and the promotion of market order; secondly, it is conducive to the realisation of public interests through private actions; thirdly, in response to the problem of inadequate supervision of the market by public authorities, "buying counterfeit goods" can play a supplementary role; fourthly, "buying counterfeit goods "Fourthly, it is in line with the legislative intent of the Consumer Law and helps to protect the rights and interests of consumers. However, the above-mentioned positive effects are, firstly, hidden effects that are subjectively difficult to measure; secondly, the positive effects can easily be ignored due to the motives of the perpetrators; finally, the positive effects of "knowing and buying counterfeits" can easily be covered by the negative effects, which eventually leads to the positive effects being completely ignored.

Some scholars argue that "buying counterfeit goods" has negative effects that disrupt the market order. When analysing the negative effects of "buying counterfeit goods", the following points should be noted: do not consider irrelevant effects and do not expand the negative effects. Suppose the negative impact is the reason for prohibiting "buying counterfeit goods". In that case, it is obviously not conducive to the development of the market, and the negative impact can be mitigated using regulation, rather than just banning it. Lawyers are the embodiment of justice, but they are also a profession with the same goal of gaining profit. It should be clear that there is a reason for "knowingly buying a fake" as long as it does not violate the law. As the rule of law improves and specialisation

strengthens, buying counterfeit goods will eventually complete its mission and will sooner or later be retired from the stage of history, rather than the present.

In the current situation, it should be considered that there is a middle ground between the permissibility and the prohibition of "knowingly buying counterfeits", i.e. limiting the circumstances in which punitive damages can be applied to "knowingly buying counterfeits" to minimise their negative impact and enable the positive impact to be reflected. The middle ground between the prohibition of "knowingly buying counterfeit goods" and the application of punitive damages to "knowingly buying counterfeit goods" should be restricted to minimise its negative impact and allow its positive impact to be reflected, thereby enabling it to contribute to market development.

6. Conclusions

The phenomenon of "knowingly buying fakes" started to appear in 1995 and reached its peak in 2014, with 385 papers published. The academic debate on the issue of "buying fakes with knowledge" has never stopped, which shows that the problem of "buying fakes with knowledge" has not been solved perfectly. Scholars have discussed the controversial issue of "buying counterfeit goods" from different perspectives to reach a unified conclusion. However, there is still a lack of in-depth research on how to limit the circumstances of punitive damages and how to deal with the growing group of "buying counterfeit goods". There is a lack of in-depth research. The Consumer Law needs to be amended and improved to better protect consumers' legitimate rights and interests, as the phenomenon of "knowingly buying counterfeits" occurs from time to time.

References

- [1] Wang Liming. (2002). The concept of consumer and the scope of adjustment of consumer rights and interests law. Politics and Law(02),5-15.
- [2] Zhai Jingbo. (2020). "Knowingly buying counterfeit" behavior of economic laws and regulations. Journal of Wuzhou College(04),53-59.
- [3] Jiang Bing. (2020). The identification and legal application of "knowingly buying counterfeit goods". Legal System and Economy(05),89-91.
- [4] Niu Panpan. (2020). Application of punitive damages of consumer law to the purchase of counterfeit goods the operator's perspective. Guangxi Quality Supervision Herald (05), 253-254.
- [5] Liu Zhongdong. (2005). The legal basis for the application of consumer law to the purchase of counterfeit goods. Journal of Zhejiang University (Humanities and Social Sciences Edition)(02),178.
- [6] Song Zheng, Hu Ming. (2003). Whether the buyer of counterfeit goods is a consumer in the light of Wang Hai's counterfeiting case an analysis in the sense of legal interpretation. Contemporary Jurisprudence (01),82-91.
- [7] Liu Baoyu, Wei Zhenhua.(2017). "Theoretical Explanation and Legal Application of 'Knowingly Buying Fakes'". Jurisprudence Forum(05),70.
- [8] Ying Feihu(2019). Prohibition or restriction? -- A Study on the Regulation of Knowingly Buying Fakes. Law Review(04),63-78.