

Declaratory judgment actions for non-infringement of IP rights

Rights holders should beware of alleged infringers instituting declaratory judgment actions for non-infringement and review their activities in response

By Jiuyun Peng, Liu, Shen & Associates

Rights holders have the right to initiate court actions against alleged infringers. However, under certain conditions, alleged infringers can proactively institute declaratory judgment actions for non-infringement. Such actions can be used as both sword and shield. In addition to resolving infringement issues so that alleged infringers can resume normal business activities, declaratory judgment actions can confer additional benefits on an alleged infringer in terms of choice of venue and timing of the suit, enabling it to sue the rights holder first in a favourable locale (eg, its hometown) and, in doing so, obtain a strategic advantage for litigation and negotiation.

Declaratory judgment actions for non-infringement were not originally codified in patent, trademark, copyright or unfair competition law or in the Civil Procedure Law, but developed gradually through practice. They were finally acknowledged by the courts in the first decade of this century. The factors and prerequisites of such actions were gradually clarified in opinions and judicial interpretations of the Supreme Court.

Declaratory judgment actions have affected the activities of rights holders and alleged infringers, including sending and replying to demand letters and negotiating licences. This article discusses the factors and prerequisites of declaratory judgment actions and offers practical advice on this subject.

Development of declaratory judgment actions for non-infringement

The first impression action for declaratory judgment relating to a patent dispute occurred in 2000. Suzhou Longbao Bioengineering Industrial brought an action before the Nanjing Intermediate Court to declare that its products did not infringe a patent of Suzhou Langlifu Health Products. Longbao brought the action after Langlifu sent warning letters to Longbao's distributors accusing them of patent infringement. The Nanjing Intermediate Court referred the question of whether it had authority to adjudicate declarations of non-infringement to the Supreme Court. In 2002 the Supreme Court issued an opinion stating that the Nanjing Intermediate Court did possess jurisdiction over the declaratory action and should accept it because Langlifu had sent warning letters to its distributors accusing them of patent infringement, which resulted in the distributors ceasing to sell Longbao's products. This caused injury to Longbao; thus, Longbao had a direct interest in the action. Further, the action met the basic requirements of a civil action, as provided in the Civil Procedure Law.

In 2003 the Beijing First Intermediate Court accepted a declaratory judgment action in a trademark dispute brought by the Chinese Social Science Press against UK company Fred-Erick Warne & Co, Ltd. This was the first declaratory judgment action related to trademarks in China. The Beijing High Court held that declaration of non-infringement essentially involves determining whether an activity infringes another party's exclusive rights. Thus, the court should apply the laws related to civil actions for infringement, including determination of the venue of suit.

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In a 2003 patent case, the Supreme Court opined that a declaratory judgment action for non-infringement should be consolidated with the corresponding infringement action, and that the court which had initially accepted the first of the two actions had jurisdiction over the entire consolidated case. Eli Lilly had sued Changzhou Huasheng Pharmaceutical Co Ltd in Qingdao for patent infringement. However, before Eli Lilly's patent infringement suit was accepted, Huasheng filed a declaration judgment action against Eli Lilly in Nanjing, based on a warning letter sent by Eli Lilly. The Supreme Court ruled that the subsequent Qingdao action should be consolidated with the Nanjing action and both actions should be heard before the Nanjing court.

In 2004 the Supreme Court issued another important opinion in a declaratory judgment action between Honda and Shuanghuan Motor. The resulting opinion clarified two issues:

- Declaration of non-infringement is a type of infringement dispute and the venue of such an action should be determined in the same way as for an infringement action (which confirms the Beijing High Court's opinion, as discussed above).
- A declaratory judgment action and an infringement action that relate to the same dispute are independent of each other; however, in order to avoid duplicate judgments, the court which accepted the later of the two actions should transfer it to the court which accepted the corresponding action first.

This opinion allows a plaintiff (ie, the alleged infringer) of a declaratory judgment action to choose a favourable locale (eg, its hometown) by filing first, provided that such locale also meets the jurisdiction provisions for infringement.

In 2008 the Supreme Court amended the Provisions on the Cause of Action of Civil Cases to include declaratory judgment actions for non-infringement officially as a type of civil action over which the courts have jurisdiction. The provisions include three classes of patent, trademark and copyright dispute. Although declaration of non-infringement in trade secret disputes is not included, in 2008 the Shanghai courts accepted and conducted a trial for the first declaratory judgment action for a trade secret dispute.

As the bar for filing a declaratory judgment action was relatively low, this opened the floodgates for many such actions throughout China. In some cases, alleged infringers abused their rights to file a declaratory judgment action, which was detrimental to the business of rights holders. Further, the prerequisites for declaratory judgment actions remained unclear; most courts applied the test that the threat of being sued or other action by rights holders creates apprehension and commercial uncertainty for any party which is engaged in alleged infringement or intends to partake in such activities.

In 2009 the Supreme Court issued a new judicial interpretation on the application of laws in patent infringement disputes, which must be obeyed by lower courts. Article 18 of the interpretation provides that: "Where a

patent owner sends warning to another person accusing of infringing a patent right and where the patent owner neither withdraws the warning nor files a lawsuit within one month of receiving a written reminder in which the person warned or an interested party urges the patent holder to exercise the right to sue, or within two months of sending out the written reminder, the Courts shall accept the case if the person warned or the interested party files a declaratory judgment action for non-infringement.”

Although this provision relates to declaratory judgment actions in patent disputes, in practice, it is also applicable to trademark and copyright disputes. The provision frames declaratory judgment actions within a controlled procedure and raises the bar for filing such actions.

Prerequisites for declaratory judgment actions

As mentioned above, the 2009 Supreme Court judicial interpretation specified the prerequisites for declaratory judgment actions. However, in practice, several factors need further clarification. Whether the prerequisites have been met is a question of law, and the declaratory plaintiff bears the burden of proof.

Warnings

Warnings from rights holders are not restricted to written warnings (eg, a cease-and-desist or demand letter); they also encompass other activities which invoke apprehension and uncertainty among alleged infringers based on the totality of the circumstances. For example, an oral statement made in public by a rights holder or its representative can constitute a warning. If a rights holder files a complaint with a court or an administrative agent, but later withdraws the complaint without a decision on the merits, such withdrawal can also represent a warning or threat.

Written reminder

A reminder urging a rights holder to exercise the right to sue should take written form (eg, a letter, fax or email).

Parties eligible to send a written reminder are limited to the party warned or an interested party. The interested party should have a direct interest in the dispute; for example, if

a rights holder sends a cease-and-desist letter to a retailer of alleged infringing products, but fails to approach the manufacture or supplier, the manufacture or supplier can send a written reminder directly to the rights holder, as it is potentially liable for the infringement.

Rights holders are urged to exercise the right to sue – that is, to file a civil action, rather than an administrative action. A declaratory judgment action filed by the warned or interested party can be accepted by a court even if the rights holder has previously filed a complaint with an administrative agent which has jurisdiction over the concerned dispute within the specified period. However, the court which has accepted the complaint will likely await the outcome of the administrative proceedings or dismiss the complaint.

Failure to exercise right to sue

The specified period for a rights holder to sue is within one month of receiving a written reminder or within two months of the reminder having been sent out. It may be difficult to prove that the rights holder has received the written reminder; thus, the second period alleviates the burden on the warned or interested party. If the rights holder files a lawsuit or withdraws the warning, a declaratory action cannot be accepted.

Exception

The Supreme Court has provided a scenario in which a declaratory judgment action can be filed in a policy opinion. A party which receives a warning or threat from a rights holder which is not aimed at a specific person, and subsequently contacts the rights holder in order to determine whether its activities constitute infringement, providing the rights holder with reasonable information to make such a determination, can file a declaratory judgment action if the rights holder fails to reply or refuses to conduct the determination within a reasonable period of time. A warning or threat not aimed at a specific person could constitute, for example, an anonymous announcement in the media which identifies the infringement and declares the intent to sue the infringers. At least one declaratory judgment action has been filed which met the aforesaid prerequisites.

Other issues

Generally, in a declaratory judgment action, the plaintiff can claim only for non-infringement; it cannot claim damages or compensation for mental distress. A plaintiff wishing to claim for relief for injuries inflicted due to a warning or threat from a rights holder must file another action before a proper court; causes of action may include unfair competition and abuse of rights.

A rights holder facing a declaratory judgment action can file a counterclaim of patent infringement before the same court. Such a counterclaim is not mandatory; if the rights holder fails to file the counterclaim in the declaratory judgment action, it maintains the right to sue later and can file another action for damages if the declaratory judgment action is decided in its favour.

Tips for dealing with declaratory judgment actions

Although, legally, the bar has been raised for filing declaratory judgment actions – in particular, the requirement that the party which is warned or perceives a threat of suit send out a written reminder or contact the rights holder – rights holders and their counsel should exercise caution when sending demand or cease-and-desist letters or licence invitations and be prepared for litigation if the recipient seeks a declaration of non-infringement.

The following are tips for dealing with alleged infringers and reducing the risks invoked by declaratory judgment actions:

- Prepare for litigation before sending a demand or cease-and-desist letter – the safest course of action for rights holders intending to resolve disputes amicably or through litigation is first to prepare for infringement litigation, including preparing the necessary documents (eg, power of attorney, business register and certificate of legal representative) and collecting and preserving sufficient evidence to prove infringement. On receiving a written reminder from the alleged infringer, the rights holder has only one month to file an infringement suit; the documents necessary for litigation must be notarised and legalised, which may itself take approximately one month.

Further, alleged infringers tend to conceal infringing activities after receiving a warning letter, which makes collection and preservation of evidence demonstrating infringement problematic.

- Carefully choose the wording of letters sent to alleged infringers – before sending a letter in an attempt to compel the recipient to cease infringing activities or take on a licence, rights holders should send a standard letter (eg, solely for a notice function), thus avoiding warning or threatening the recipient. Such a letter will put the alleged infringer on notice of the relevant IP rights. For example, a letter that simply introduces the rights holder, encloses the relevant patent documents for the recipient's information and shows interest in discussing the patent may suffice. If there is subsequently discussion about the patent, reference to specific products or the offer of a licence may be made. Similarly, a public announcement simply mentioning the existence of a patent may suffice.
- Avoid a declaratory judgment action during licence negotiations – during licence negotiations it may be useful to reach agreement in advance not to seek declaratory judgment, which could prevent a situation in which the potential licensee uses a declaratory judgment to improve its bargaining position in the ongoing negotiation. Alternatively, the rights holder can propose a deadline for completion of the negotiations and obtain an agreement from the potential licensee not to file a declaratory judgment action before the deadline.
- Protect trade secrets during a declaratory judgment action in a trade secret dispute – rights holders should prevent the plaintiff from utilising the action to obtain trade secrets illegally. ●●●●●

Liu, Shen & Associates

Hanhai Plaza (1+1 Plaza), 10th Floor, 10 Caihefang Road

Haidian District, Beijing 100080, China

Tel +86 10 6268 1616

Fax +86 10 6268 1818

Web www.liu-shen.com



Jiuyun Peng

Partner

jypeng@liu-shen.com

Jiuyun Peng is a patent attorney and attorney at law at Liu, Shen & Associates. He obtained bachelor's and master's degrees in material science and engineering from Tsinghua University in 2000 and 2002 respectively, and an LLM from the John Marshall Law School in the United States in 2009.

Mr Peng began his legal career in 2002. His current practice includes patent prosecution, invalidation and infringement litigation and consulting.

Mr Peng has represented many multinational clients, including Staubli, Samsung and Siemens, in patent infringement and invalidation proceedings.