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Forum shopping comes to China
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Sophisticated Chinese companies accused of patent infringement are beginning to understand that they can derail an IP owner's enforcement strategy if they launch an action for declaration of non-infringement. **Benjamin Bai**, **Tony Chen**, **Xiang Wang** and **Peter Wang** of Jones Day offer a timely warning

While IP owners are becoming familiar with patent infringement lawsuits and patent invalidation proceedings in China, many of them are unfamiliar with and unprepared for a new type of IP-related cause of action in China: the declaration of non-infringement. The declaratory action is starting to play an important role in the tug-of-war between IP owners and alleged infringers in selecting their court of choice in China for adjudicating their dispute.

Imagine the following scenario: Company A obtained Chinese patents to protect its product in China. Company A discovered that Company B is making and selling a competing product in a remote area of China. Knowing that the statute of limitations in China for patent infringement is two years from the time the patent owner knew or should have known of the infringement, Company A sent a cease-and-desist letter to Company B, accusing them of patent infringement and demanding immediate cessation of the infringing activities. A short while later, to the surprise of Company A, Company B filed a declaration of non-infringement suit in Company B's home court. Company A immediately filed a patent infringement lawsuit in Beijing. Alas, the Beijing court declined to accept Company A's infringement suit and ordered the case to be transferred to Company B's home court, thus putting Company A in a disadvantaged position in pursuing its infringement claims against Company B.

This article examines the origin and practice of declaration of non-infringement in China and discusses strategy for IP owners in China.

How it all started: Longbao v Langlifu

While the US and many other Western countries have statutes dealing with declaratory judgment lawsuits, the source for declaration of non-infringement actions in China is an opinion by the Supreme People's Court in 2002.

In *Suzhou Longbao Bioengineering Industrial Corp. v. Suzhou Langlifu Health Products Co*, Minsantazi No. 4/2001 (Supreme People's Court, July 20 2002), Suzhou Longbao Bioengineering Industrial (Longbao) brought a declaration of non-infringement action against Suzhou Langlifu Health Products (Lianglifu) in Jiangsu Higher People's Court after Langlifu sent warning letters to Longbao's distributors accusing them of suspected patent infringement. In answering a request from the Jiangsu Higher People's Court for a directive, the Supreme People's Court recognized declaration of non-infringement as a proper cause of action and provided the following reasons:

> "Under Articles 108 and 111 of the Civil Procedure Law of the People's Republic of China, People's Courts should accept lawsuits meeting the requirements prescribed therein. In the present case, defendant Langlifu sent a warning letter to Longbao's distributors with patent infringement accusations. As a result, the distributors ceased the sales of Longbao's products, which inflicted injury to Longbao. As such, the plaintiff has a direct interest in the case. In the complaint, the plaintiff identified the defendant, alleged specific facts, and provided clear reasons and grounds for relief. It also falls within the scope of civil actions to be adjudicated by People's Courts, and the jurisdiction is proper. Therefore, the People's Court should accept this case."

Longbao progenies

The *Longbao* decision has spawned a series of declaration of non-infringement suits in China, involving patents, trade marks and copyright. The first declaration

of non-infringement case involving trade mark and copyright infringement in China is a case dealing with the rights to the children's book character Peter Rabbit. The case was filed in June 2003.

In 2003, Eli Lilly sued Changzhou Huasheng Pharmaceutical (Huasheng) Co. Ltd in Qingdao, Shangdong province, for patent infringement. However, before Eli Lilly's infringement suit, Huasheng filed a declaration of non-infringement suit against Lilly in Nanjing, Jiangsu province, based on an accusatory warning letter sent by Lilly. When asked to decide the proper venue for this dispute, the Supreme People's Court laid down a first-to-accept rule: where there are two suits involving essentially the same legal issues and underlying facts, the later-filed case(s) must be combined with the first case to avoid inconsistent adjudication. As such, the Qingdao court had to transfer Eli Lilly's infringement case to the Nanjing court.

The first-to-accept rule was further affirmed in *Honda Technology Research Co. vs. Shijiazhuang Double-Circle Motor Co. Ltd., et al.*, Minsantazi No. 4/2004 (Supreme People's Court, June 24 2004). In September 2003, Honda Motor Co. discovered that Shijiazhuang Double-Circle Motor Co. Ltd. (Double Circle) was promoting a sports utility vehicle (SUV) that looks like a Honda model. Honda sent a cease and desist letter to Double Circle, who disregarded the warning and proceeded with the sales and marketing of its new SUV. In October 2003, Double Circle filed a declaration of non-infringement action against Honda regarding Chinese Patent No. CN 01319523.9 in Shijiazhuang Intermediate People's Court. The Shijiazhuang court accepted the suit on October 16 2003. In November, Honda filed a patent infringement suit in the Beijing Higher People's Court against Double Circle, asserting

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Benjamin also leads a number of China-related IP projects. He is handling a range of patent infringement and trade secrets misappropriation cases in China for multinational companies. He is experienced in obtaining patents and trade marks for multinational companies in China and providing strategic advice on how to enforce their IP there. Benjamin also counsels Chinese clients on how to build a global patent portfolio, enforce their patent rights and handle patent infringement suits overseas.

Benjamin received a BSc in polymer chemistry from the University of Science and Technology of China, a PhD in chemistry from Rice University and a JD from the University of Texas. He is registered to practice before the USPTO and is licensed in Texas.

Tony Chen

Tony Chen is Of Counsel in Shanghai and has 13 years of experience working with hi-tech and biotech companies in the US and China. His practice focuses on patent prosecution and litigation, technology transfer, and the formation of technology start-ups. He is a consultant to the Shanghai government on the life science industry and IP matters.

Tony practiced patent law for six years in San Diego and represented a wide range of hi-tech and biotech companies in patent litigation, prosecution, and licensing. His life science IP practice covered genetic engineering, drug therapeutics, medical devices, chemistry, diagnostics, herbal medicine and DNA chips.

Prior to this, Tony was the first in-house patent counsel for Watson Pharmaceuticals, a generic drug and specialty pharmaceutical company, where he was responsible for IP strategy and litigation. In 2000, Tony founded a biotechnology company in Silicon Valley to develop technologies for drug discovery.

Tony received his JD from Harvard Law School and his Bachelor's degree in cell biology from the University of Science and Technology of China. He studied molecular biology at Vanderbilt University before beginning his legal studies. He is a member of the California Bar and is admitted to practice before the USPTO. He is fluent in Chinese and English.

infringement of three Chinese patents: CN 01319523.9; CN 01302609.7; and CN 01302610.0. The Beijing court accepted the case on November 24 2003. Subsequent to its initial declaratory suit, Double Circle also added the two additional patents in the suit. However, there was no evidence to show that the Shijiazhuang court accepted the case regarding the additional patents before November 24 2003. Therefore, the Supreme Court ruled that the Beijing court should hear the infringement case relating to CN 01302609.7 and CN 01302610.0 (both cover front and rear bumpers of an automobile), whereas the Shijiazhuang court should hear the infringement case relating to CN 01319523.9 (which covers overall automobile design). The Court emphasized that the underlying facts and issues for infringement determination and declaration of non-infringement are essentially the same. To avoid inconsistent rulings, different courts should not adjudicate issues based on the same facts. The court to assert jurisdiction over the case first gets to keep the case. The Court cited Article 37(2) of the Chinese Civil Procedure Law and Article 2 of the Supreme People's Court's Several Provisions on Strictly Implementing the Civil Procedure Law in Trial of Economic Cases (No. Fafa 29/1994, issued December 22 1994).

Basis for jurisdiction

While the Supreme People's Court trilogy in *Longbao*, *Eli Lilly*, and *Honda* has unequivocally established declaration of non-infringement actions, it has yet to provide jurisdictional guidelines for such suits. In particular, it is not clear what the threshold is for declaration of non-infringement. Recent cases have shown that a cease-and-desist letter that accuses infringement would trigger the jurisdiction. It is, however, not clear if a public statement, such as a press release, accusing infringement in a general way is sufficient ground for declaratory actions in China.

Xiang WANG

Xiang Wang is Of Counsel in Jones Day's Beijing office and has 18 years experience that spans corporate business, technology creation and IP protection in China and the US. He has worked as an engineer, inventor, R&D director and a technology company executive. Xiang was named one of Asia's top 100 hottest lawyers by Asian Legal Business in 2005.

Xiang coordinates prosecution, enforcement, and technology transfer/licensing for substantial patent and trade mark portfolios for companies doing business in China. He also regularly handles office actions, oppositions, patent invalidation proceedings and anti-counterfeiting and anti-piracy efforts, as well as patent and trade mark enforcement litigation in China and in the US.

He has particular expertise in electronics, semiconductors, automotive products, mechanical engineering technologies, biotechnology, battery technologies, nanotechnology, telecommunications data encoding/decoding, data analysis & pattern recognition of telecommunications cost & usage, audio/video signal compression, ultrasonic and X-ray medical devices, adaptive cell phone battery charger technology, medical devices, computer software, and internet technology.

Xiang has been awarded four US medical-technology patents. He serves as vice chair of the IP committee of the American Chamber of Commerce in Shanghai and as counsel for the R&D-based Pharmaceutical Association in China. In addition, he serves as an adjunct professor of electrical and biomedical engineering at Drexel University in Philadelphia, Pennsylvania. He is a member of IEEE and the American Bar Association. Xiang is fluent in Chinese and English.

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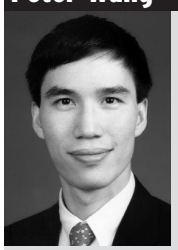

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Peter has more than 12 years of litigation and arbitration experience in the US, China and around the world. He regularly advises clients inside and outside of China on complex commercial and international litigation, including patent, trade secrets, copyright and other technology and IP matters. Some representative matters include: *First American Corporation v Sheikh Zayed bin Sultan Al-Nahyan* (civil RICO action with related criminal, civil, and regulatory investigations and litigation), *Hong Yi Construction v Thomson Consumer Electronics* (RICO and contract action), *Allied Signal v BFGoodrich* (private antitrust litigation defending proposed acquisition), and *Arista Records v. Launch Media* (copyright infringement litigation relating to online radio).

Peter also regularly advises on China and US-related antitrust/competition issues. He has helped handle several government antitrust investigations of proposed mergers and acquisitions, including America Online's merger with Time Warner and Procter & Gamble's acquisition of Clairol from Bristol-Myers Squibb. In addition, he has been involved in several antitrust litigation matters, including on behalf of BFGoodrich in connection with its acquisition of Coltec.

Venue rules

The Supreme People's Court in *Honda* stated that a declaration of non-infringement action is subsumed in the category of IP infringement cases. Therefore, venue for a declaratory action is determined in the same way as for IP infringement, i.e. where the defendant has domicile or where the product at issue is made, sold or offered for sale. This means that accused infringers can often establish home court advantage against the IP owner by filing a declaratory action.

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Rule making in progress

In October 2003, the Supreme People's Court prepared draft Rules on Several Issues Relating to Trial of Patent Infringement Cases. Article 62 addresses declaration of non-infringement:

> "Where a person who is making or is going to make a product or use a process requests a patentee to determine that his act does not or will not infringe the patentee's patent, and in a reasonable manner, provides technical documents and information necessary for making the determination but the patentee fails to reply within a reasonable time limit or refuses to make non-infringement determination, the person may bring an action in a people's court to request for a declaration that his act does not or will not constitute infringement of the patent at issue.
>
> Where a patentee or an interested party sends a warning letter accusing infringement to another person, the warned party may bring an action in a people's court to request a declaration of non-infringement.
>
> Where an act of warning by a patentee or an interested party impinges upon the legal rights of the warned party, the warned party may also request a people's court to order the warning party to cease impingement, compensate for damages, eliminate ill influence, and/or make an apology.
>
> Under the circumstances referred to in the preceding two paragraphs, the patentee or an interested party may institute a counter-suit, requesting the court to declare that the plaintiff has infringed the patent and should bear civil liabilities."

While Article 62 of the draft Rules has not been issued by the Supreme People's Court, it points to where China is likely to go with respect to declaration of non-infringement actions.

On familiar ground?

It is important for international companies to understand the differences between China's rules (or lack thereof) about declaratory actions and those in the West in planning their IP protection strategy in China.

In the US, a declaratory judgment action by an accused infringer is proper if the IP owner's conduct created on the part of the accused infringer *a reasonable apprehension of imminent suit* if it continues the allegedly infringing activity, and if the accused infringer has either produced the device or prepared to produce it.

In Germany, however, an infringer can file a lawsuit for a declaration of non-infringement so long as the infringer can show that he or she has a "legal interest" in this declaration. Usually, a person has the necessary legal interest if he has been accused by the IP owner of infringement, for example, in a warning letter sent to the infringer, in summary court proceedings brought by the patentee, or in other public statements.

The English courts take yet another approach: a declaration of non-infringement of a patent action is proper if it is shown that the applicant has asked the IP owner for a written acknowledgement for a declaration of non-infringement and has provided the details of the applicant's act in question; and if the IP owner has refused to give such acknowledgement.

The draft Rules from the Supreme People's Court's on *Issues Relating to Trial of Patent Infringement Cases* suggest that China may adopt some of the German and English standards for declaratory actions.

To warn or not to warn?

To deny infringers home court advantage, IP owners should pay special attention to the language of warning letters. In that regard, a warning letter soliciting negotiation or a license is unlikely to trigger a declaratory action. If the letter does not produce desired results, it would be prudent for the IP owner to file an infringement suit in a venue of its choice.

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