

Client Alert

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China Patent: SPC issues first ruling on declaratory judgement action

The IP tribunal of the Supreme People's Court (SPC) recently issued a final ruling on a declaratory judgement action related to a patent dispute on 12 June 2019. Although the court dismissed the plaintiff's declaratory judgement action, the court clarified in its ruling issues regarding: 1) the determination of "warning"; and 2) the scope of claims in a declaratory judgement action. This ruling provides further guidance on the mechanism of declaratory judgement action for patent owners to reconsider their patent enforcement strategies in China.

Facts and background

Safe-Run Huachen Machinery (Suzhou) Co., Ltd. ("**Safe-Run**") owns a patent related to a tire-making machine. VMI Holland B.V. ("**VMI**") is a manufacturer of a range of tire-making machines, including the MAXX and VMI245 models. Cooper (Kunshan) Tires Co., Ltd. ("**Cooper**") is a VMI customer that uses the MAXX model.

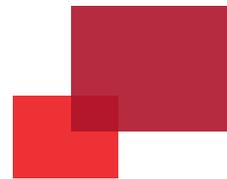
Safe-Run filed an administrative complaint against Cooper for using the alleged infringing products, including but not limited to the MAXX model. However, VMI was not involved in this administrative proceeding. VMI then delivered a written notice to Safe-Run on September 24, 2018, indicating that the infringement complaint in the administrative proceeding has adversely affected the operation of VMI and its clients in China. The notice further required Safe-Run to: 1) withdraw the administrative complaint; or 2) initiate a civil action to resolve the infringement dispute. Safe-Run received the notice on September 26, 2018, and then on October 19, 2018 filed a civil lawsuit against Cooper and VMI before the Suzhou IP Tribunal.

After Safe-Run's filing of a civil action, VMI and Cooper filed a declaratory judgement action with the same court, requesting the court to rule that VMI's MAXX and VMI 245 models do not infringe Sage-Run's patent at issue.

Legal grounds for filing a declaratory judgement action in a patent dispute

According to Article 18 of the *SPC's Interpretations Concerning Certain Issues on the Application of Law for the Trial of Cases on Disputes over Patent Infringement*,¹ when the following elements are met, a warned party is

¹ Article 18 of the SPC's Interpretations Concerning Certain Issues on the Application of Law for the Trial of Cases on Disputes over Patent Infringement provides that "where the right holder gives a warning to others regarding the infringement of patent rights and the caveatee or interested party gives a written notice demanding the right holder to exercise the right of action, if the right holder neither withdraws the warning nor files a lawsuit within one month after receiving such written notice or within two months after the written notice has been given, and if the caveatee or interested party institutes a proceeding with the people's court requesting the people's court to confirm that its act does not infringe upon the patent right, the people's court shall accept the proceeding.



entitled to file a declaratory judgement action against a patentee (or a party sending a corresponding warning, which we will refer to as "patentee" below for ease of reading):

1. The patentee sends a warning to a warned party in relation to infringement on its patent rights.
2. The warned party sends a written demand asking the patentee to file a lawsuit.
3. The patentee neither withdraws the warning nor files a lawsuit within one month from its receipt of the written demand, or within two months from the issuance of the written demand.

Article 18 provides a mechanism for filing a declaratory judgement action to avoid potential adverse impact on the warned party's interests caused by a patentee's failure to enforce or delayed enforcement.

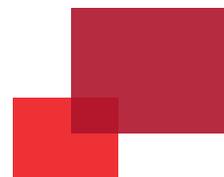
1. Determination of "warning"

A key issue in the current case was whether the administrative complaint filed by Safe-Run against Cooper serves as a "warning" to VMI.

The lower court, i.e., the Suzhou IP Tribunal, ruled that the administrative complaint filed by Safe-Run was not a warning, on the grounds that the administrative proceeding functioned as a dispute resolution channel where Safe-Run already actively enforced its patent and thus it is substantially different from a warning. However, the SPC IP Tribunal overruled the judgement of the lower court, and held that the administrative complaint in this case served as a warning against VMI for these reasons:

1. The purpose of a declaratory judgement action is to eliminate uncertainty around whether there is an infringement, so as to properly protect the interests of a counterparty who receives a warning.
2. In this case, the administrative proceeding is against a product manufactured by VMI, thus the proceeding would impact VMI and its products.
3. Further, VMI is not an opposing party in the administrative proceeding and therefore could not provide its defense in the proceeding.

The above interpretation of "warning" balances the interests between a patentee and a relevant party who may be affected by the patentee's enforcement action. The patentee is entitled to enforce its patent rights by either filing a civil lawsuit or an administrative complaint. It has discretion to choose who serves as the counterparty (e.g., manufacturer, distributor or user) in a selected proceeding. However, this freedom of choices should be restricted. If an interested party is not involved in the proceeding, such proceeding may serve as a warning to that party. Accordingly, the uninvolved interested party may compel the patentee to initiate an enforcement proceeding involving it to eliminate the adverse effects caused by the original proceeding on it. This way, the legitimate rights of defense and business interest of the uninvolved party can be protected.



In conclusion, although the complaint serves as a warning, the SPC dismissed VMI's claims, as Safe-Run has already taken a civil action against VMI and Cooper within the mandatory period.

2. The scope of claims in a declaratory judgement action

The SPC IP tribunal also addressed the issue of scope of claims in the declaratory judgement action. The tribunal emphasized that the scope of claims in a declaratory judgement action shall not exceed the scope of warning sent by a patentee, as a declaratory judgement action is only derived from its corresponding warning.

In this case, in addition to the MAXX model, which is the alleged infringing product referred to in the administrative proceeding, VMI also requested the court to confirm that the VMI245 model does not infringe Safe-Run's patent at issue as well, as Safe-Run has claimed in the administrative proceeding that the infringing product includes but not limited to the MAXX model.

The SPC opined that although Safe-Run used "includes but not limited to" in its administrative complaint, it does not mean that the alleged infringing products include all products of VMI. Further, the infringing product being referred to in the administrative proceeding was only the MAXX model. Thus, the SPC concluded that as the scope of the warning is related only to the MAXX model, so does the scope of the declaratory judgement action.

Declaratory judgement action was officially introduced to the legal regime of China in 2001, and the specific mechanism in the SPC's *Interpretations Concerning Certain Issues on the Application of Law for the Trial of Cases on Disputes over Patent Infringement* was later established. In practice, a warning letter is typically viewed as a potential trigger of a declaratory judgement action. Cases such as *Honda v. Shuanghuan* have been tried to determine what constitutes a warning letter.

This case emphasizes the purpose of the establishment of a declaratory judgement mechanism and clarifies the determination of "warning," which not only includes a warning letter but also an enforcement action. It certainly provides valuable considerations for enforcement strategy.

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