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Chinese Supreme Court Recently Clarified the Standard of Filing a Declaratory Judgment Action of Non-Infringement of Patent

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Declaratory-judgment actions of non-infringement are common in patent litigation because it allows the alleged infringer to proactively bring suit to resolve the situation and eliminate the cloud of uncertainty looming overhead. Under Chinese law, to bring a claim for declaratory judgment in a patent dispute, the claimant must establish that: (1) the patentee sends a "notice" of infringement; (2) the alleged infringer or a pertinent interested party demands the patentee to bring a lawsuit in court; and (3) the patentee refuses to withdraw the warning nor initiate a lawsuit within one month after receiving said demand or two months after the demand was sent.

On a related note, a unique feature of China's patent right enforcement mechanism is that infringement claims can be pursued both administratively and judicially. In the administrative system, allegations of infringement can be brought to a local branch of the China National Intellectual Property Administration (CNIPA), which is authorized to issue an injunction in its province or city but is unable to award monetary damages.

There is no bright-line rule for what is a "notice" of patent infringement as required by the law. A typical "notice" is a cease and desist letter. Sometimes a patentee, instead of sending a cease and desist letter to the alleged infringer or its reseller/distributor/customer, chooses to file a complaint with a local branch of the CNIPA to initiate an administrative enforcement action. Then, a question arises as to: (1) whether such administrative action should be regarded as a constructive "notice" of infringement that may give rise to declaratory judgment jurisdiction; and (2) whether a patentee's notice letter or lawsuit against reseller/ distributor/ customer alone gives the supplier/manufacturer standing to seek declaratory relief against the patentee.

Chinese Supreme People's Court (SPC) in *VMI Holland v. Safe-Run* (SPC, 2019) recently clarified this long-standing question. Safe-Run chose to enforce its patent right against VMI's distributor Cooper Tire before the Suzhou Intellectual Property Office (SZIPO), alleging that the distributed products infringed Safe-Run's patent. VMI then filed a request for declaratory judgment in the Suzhou Intermediate Court, requesting the court find non-infringement of Safe-Run's patent. The patentee Safe-Run argued that the declaratory judgment action should be dismissed because it has never sent any notice letter to Cooper Tire or VMI. Moreover, it argued that it already brought an affirmative infringement action instead of merely threatening to enforce its patent or creating a reasonable apprehension of an infringement suit.

The SPC agreed that Safe-Run's administrative enforcement action at the SZIPO is akin to a court proceeding rather than a cease and desist letter. However, it held that Safe-Run's administrative complaint was towards VMI's distributor, not towards VMI. VMI on the one hand is not a party and has no opportunity to defend itself in the SZIPO proceeding, on the other hand VMI as the manufacturer is subject to the injunction if infringement of Cooper Tire were found. As such, the SPC held that Safe-Run's administrative enforcement action against Cooper Tire creates uncertainty and insecurity to VMI's business, thereby shall be deemed as a "notice" giving rise to declaratory judgment jurisdiction for VMI.

However, an interesting fact in this case is that, the patentee Safe-Run, upon receipt of the demand letter from VMI, dropped its complaint from the SZIPO and filed a civil lawsuit against VMI and its distributor Copper Tire within one month. The SPC finally found that, the non-infringement declaratory action filed by VMI is not necessary and shall be dismissed because the requirement (3) listed in the above first paragraph was not satisfied. The SPC further clarified that, the scope of a non-infringement declaratory action shall be consistent to the allegations in a patentee's "notice." In the current case, VMI made amendments to its non-infringement declaratory action to include an additional product that was not specifically alleged in the administrative complaint filed before the SZIPO, which was found not acceptable by the SPC.

Taking away

In China, administrative enforcement of patent rights has pros and cons compared with civil actions. The apparent pros include that administrative enforcement can usually be concluded within 4 months, much quicker than a civil proceeding which will normally takes 1-2 years for patent cases. The cons are that, local branches of the CNIPA would unlikely have the capacity to make infringement analysis if the determination of patent infringement is not straightforward.

As such, for patent infringement involving sophisticated technical analysis, cautiousness is needed to take administrative action because it may not achieve a fruitful outcome, but has the potential risk to give rise to declaratory judgment jurisdiction to the other side. *VMI Holland v. Safe-Run* also advises to avoid making broad allegation in the notice if the patentee is not yet very certain to take legal action against all the alleged infringements.

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