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China Patent: Supreme People's Court IP Tribunal Affirms Departure From First-To-File Rule Where A First-Filed Declaratory Judgment Action Yields To A Later-Filed Infringement Action

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In *Linklinear Development Co., Ltd. v. Shanghai Baoye Group Corp., Ltd.*, [(2019) SPC. IP. Civil. Jur. Fin. No. 2] (November 1, 2019), the IP Tribunal of the Supreme People's Court ("SPC") affirmed a lower court's decision denying the transfer of Linklinear's later-filed infringement action to another court that hears a first-filed declaratory judgment action, holding that equitable considerations warranted departure from the typical first-to-file rule.

This article discusses the Linklinear decision and the unresolved conflict between a declaratory judgment action and an infringement action concerning the same patent under the current legal regime in China.

1. Declaratory Judgment Action and First-To-File Rule in China

The regime of declaratory judgment action was first established in China in *Longbao v. Langlifu* (2002). The SPC confirmed that a declaratory judgment action was a legitimate action in response to an infringement accusation. However, the court did not address the relationship between an infringement action and a declaratory judgment action, until it heard *Honda v. Shuanghuan* (2004). The SPC in *Honda* held that when a declaratory judgment action and a patent infringement action concerning the same patent were filed before two different competent courts, the first-to-file rule should apply and the later-filed action should be transferred to the court that heard the first-filed action, and the two actions should be combined into one case to be tried before the court. The SPC did not indicate whether there was any exception to the first-to-file rule. The dispute in *Honda* involved three patents concerning the same product. In its rulings, the SPC ordered to transfer a later-filed infringement action to the court hearing the first-filed declaratory judgment action in relation to one of the three patents, and to transfer two later-filed declaratory judgment actions to the other court hearing the first-filed infringement actions in relation to the other two patents. Prior to *Linklinear*, Chinese courts have long been following *Honda* to apply the first-to-file rule and combine the two actions into one case to be tried before the court in these circumstances.

In 2008, the SPC further clarified the triggering mechanism of a declaratory judgment action in its judicial interpretation. The SPC sets out that, to bring a claim for declaratory judgment, the

claimant must establish that: (1) the patentee sends a “warning” of infringement to an alleged infringer; (2) the alleged infringer or a pertinent, interested party demands the patentee to bring a lawsuit in court or withdraw the warning; and (3) the patentee refuses to withdraw the warning or initiates a lawsuit either within one month after receiving the demand or two months after the demand was issued (“waiting period”). This rule indicates that the ground for filing a declaratory judgment action will depend on whether the patentee has filed an infringement action in a timely manner. However, it does not address the conflict caused by the patentee filing an infringement action after a declaratory judgment action is duly filed.

2. The Linklinear Case

Here are the facts of the Linklinear case. Linklinear owns two patents at issue: (1) the ‘826 Patent directed to a device for molding concrete floor slabs; and (2) the ‘903 Patent directed to a method for molding concrete floor slabs. Huiya Aluminum Alloy Products Co., Ltd. (“Huiya”) is a Shanghai-based company that makes and sells devices for molding waffle slabs. In July 2018, Huiya, after receiving Linklinear’s warning letter asserting that Huiya’s molding devices infringed Linklinear’s ‘826 Patent and passed the waiting period, filed a declaratory judgment action in the Shanghai IP Court, asking the court to rule that there was no infringement of the ‘826 Patent. In November 2018, Linklinear filed two patent infringement actions against Huiya’s clients, namely Shanghai Baoye Group Corp., Ltd. and five other companies, in the Guangzhou IP Court, asserting infringement of Linklinear’s ‘826 and ‘903 Patents respectively. In this case, both Huiya and Linklinear have the grounds for filing their actions.

Huiya moved to transfer the Guangzhou action relating to the ‘826 Patent to Shanghai pursuant to the “first-to-file” rule. The Guangzhou Court denied Huiya’s motion and Huiya appealed. The SPC IP Tribunal affirmed the Guangzhou Court’s ruling, reasoning that although the first-to-file rule is preferred, several issues in this case warranted the decision of not transferring the later-filed Guangzhou action. In particular, the SPC considered the following factors in reaching the decision:

- The convenience and cost-efficiency of the parties;
- The convenience and efficiency for the court to find the facts; and
- The risk of inconsistent rulings by two courts on the same issue.

The SPC found that the first factor (convenience and cost-efficiency of the parties) weighs against transferring the ‘826 Patent infringement action because doing so would result in the parties having to litigate in two places (i.e., the ‘826 Patent infringement action in Shanghai and the ‘903 Patent infringement action in Guangzhou).

The second factor relates to practical considerations for the court to find facts. The SPC noted that the two infringement actions are closely related as they assert product claims and method claims regarding the same invention, and both involve the same molding devices (“Disputed Products”). Since the Guangzhou IP Court has already seized the Disputed Products in the ‘903 Patent infringement action, the SPC held that keeping the ‘826 Patent infringement action in Guangzhou was the most efficient way for the court to hear the dispute as a whole. Therefore, the SPC found that the second factor also weighed heavily against the transfer of the action to Shanghai.

With respect to the third factor, the SPC admitted that allowing the infringement action for the ‘826 Patent to be heard in Guangzhou and the declaratory judgment action of the ‘826 Patent to be heard in Shanghai may potentially result in inconsistent decisions. However, the SPC believed

such risk to be manageable, as appeals of both actions would reach the same appellate court, i.e., the SPC IP Tribunal.

On balance, after considering all the above factors, the SPC found that an exception to the first-to-file rule should be made in this case and that Guangzhou is a more appropriate forum for the '826 Patent infringement action. Therefore, the SPC ruled that the Shanghai IP Court was to hear the declaratory judgment action for the '826 Patent, and the Guangzhou IP Court was to hear the two infringement actions for the '826 Patent and the '903 Patent respectively and no case transfer was to be made.

3. Our Comments

When a company is threatened with patent infringement, it may take pre-emptive action by filing a declaratory judgment action asking the court to confirm whether it infringes the patent at issue or not. This has been quite popular among alleged infringers for it allows them to take proactive action to eliminate the cloud of uncertainty looming over their products and/or processes.

While the *Linklinear* decision gives lower courts the discretion to depart from the established first-to-file rule with justification, it does not fully address the conflict caused by an infringement action and a declaratory judgement action that are brought in parallel and the unnecessary consumption of legal and social resources as a result.

To further address this issue, similar to the mechanism set out in the SPC's interpretation as mentioned above, we propose that when a declaratory judgment action is duly filed, a later-filed infringement action should be dismissed. The fact that the patentee has not filed an action in a timely manner indicates that there may not be a solid ground for the patentee's warning and such warning already had certain impact on the alleged infringer.

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