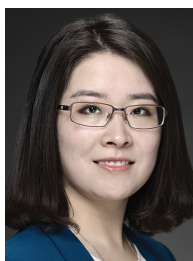




Eric Su

The risks of C&D letters in IPR cases



Ms. Jessica Li

Eric Su and Ms. Jessica Li from HongFangLaw focus on how to deal with sending C&D letters by reviewing the court decision that granted Shuanghuan Auto \$2.5 million in monetary compensation.

In recent years, we have witnessed a growing number of cases where sending a Cease and Desist letter turns out exposing the right-owner to a litigation case. In the end, a person who intends to protect his/her rights may, in turn, have to pay damages or face an unfavorable court decision as to the counterparty's infringement. This situation, on one hand, warns to some extent against the abuse of C&D letters in IPR cases; on the other hand, it poses conceptual challenges and generates extra costs for the IP right-holders when considering whether to take this measure.

In practice, we saw how, in 2017, FANGDA PARTNERS – after handling the Michael Jordan's trademark dispute – issued a C&D letter to a competitor's sponsor of a sports event telling the organizers about the trademark dispute and its outcome. At the time, the weaknesses in the letter led to a suit against the law firm and its client Michael Jordan, who were obliged to pay RMB 1 million (USD 160,000) in damages.

As for the best-known case of this kind, that should be the one concerning *HONDA vs Shuanghuan Auto*. This article, by reviewing the court decision that granted Shuanghuan Auto RMB 16 million (USD 2.5 million) in monetary compensation, will focus on how to deal with sending C&D letters.

HONDA vs. Shuanghuan Auto

The design patent dispute between HONDA (a Japanese company, represented by KING&WOOD) and Shuanghuan Auto (a Chinese Company) was concluded by China's Supreme People's Court in 2015, and stated that Shuanghuan Auto's products did not infringe upon HONDA's design patent. The Court held in its final decision that HONDA should pay USD 2.5 million to Shuanghuan Auto for its C&D letters sent to Shuanghuan Auto's customers and distributors. This case attracted a lot of attention in the IP industry, but not without much controversy.

From 2003 through 2015, both HONDA and Shuanghuan Auto had taken proactive judicial and administrative measures to secure their rights and interests. As HONDA sued Shuanghuan Auto for patent infringement, a countersuit was aimed to confirm the non-infringement instead. In the course of the civil litigation, along with the administrative invalidation of patent right and subsequent administrative litigation, the trial process of the case was extremely interesting, leaving many points worthy of further consideration, such as the principles and methods of patent infringement comparison analysis.

In this case, before the lawsuits were filed, HONDA had already sent numerous C&D letters to Shuanghuan Auto and its distributors, requesting the receiving parties stop their infringing activities, including manufacture and sale of the allegedly infringing product. As the opposing parties resorted to court proceedings, HONDA took its letters to the next stage, by reaching out over a dozen more distributors of its rival. According to the Supreme People's Court, HONDA's resourcefulness in protecting its patent rights in the first stage was legal and legitimate.

However, in the next stage, HONDA's targeting of more and more entities was aimed to advantage itself in competition and was in breach of the duty of care that a reasonably prudent right-holder should comply with when protecting its rights. HONDA was at fault for failing to disclose the crucial information that would help the C&D letters' addressees to decide whether to act as requested in said letters, thus causing losses to Shuanghuan Auto. In this regard, HONDA's second round of letters were deemed to be in violation of the Anti-Unfair Competition Law.

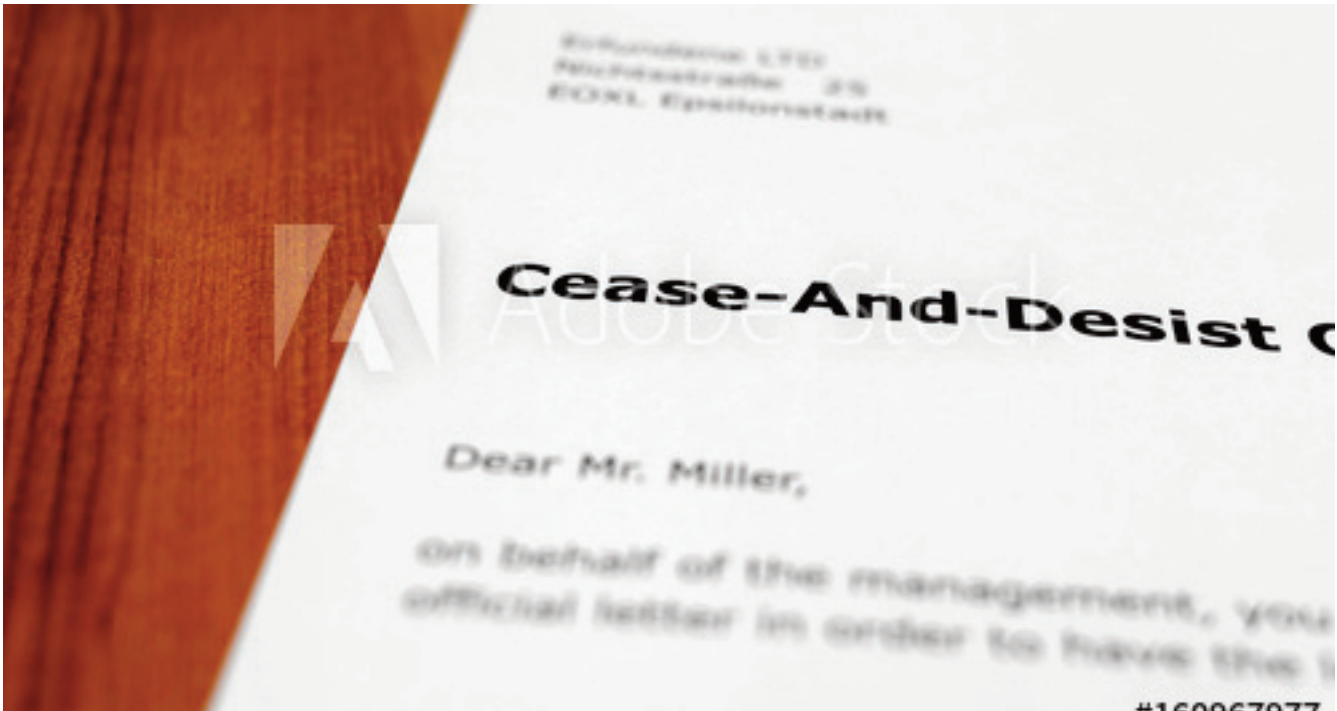
Résumés

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Eric studied law at the East China University of Politics and Law and chemical engineering at the North University of China. He is a member of the China Bar Association and the International Trademark Association (INTA), was named IP Star by Managing Intellectual Property in 2014 and is a recommended lawyer by Legal500. He has written articles for the MIP China IP Focus, the World Intellectual Property Review, China Business Law Journal and others. Eric has profound experience in the complete intellectual property practice in both trademark and patent law.

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Jessica graduated from China Petroleum University with Bachelor's degree majoring in Geographic Information System and English. Engaging in IPR industry in China since 2011, with rich experience in patent acquisition and evidence preservation and analysis, and complicated patent cases. Jessica is a member of All-China Patent Attorneys Association (APAA).



Cease and Desist letters

The above opinions of the Supreme People’s Court have thrown light on some quite noteworthy issues with C&D letters. While they are broadly used in protection of rights, when used improperly they could be of no help or even turn out to have been used illegally, driving their senders into unfavorable situations. Before sending C&D letters, one should make clear if one has the rights to do so. People who are entitled to it are: the holders of a valid patent, or the licensees of a sole license, or other licensees who meets certain standards, such as the licensees of an exclusive or ordinary license. Besides, if the rights originate from a utility or design patent, it is suggested to provide an assessment report to establish the stability of the rights, although there is no law that obligates the claimant to provide the patent evaluation report to prove the stability of its rights. Otherwise, the right-owner risks the invalidation of its patent when such application is filed, which is what Shuanghuan Auto tried to do with HONDA. Fortunately, HONDA’s patent was saved by the Supreme People’s Court’s retrial, but that luck hardly comes by.

In addition, it is important to take into consideration the right time of when to send a C&D letter, the recipient, and the contents included in it. When HONDA sent its first round of letters before the litigations, it primarily targeted Shuanghuan Auto, the manufacturer of the alleged infringing product. HONDA’s conduct at the time was completely legal and legitimate because it conformed with Article 60 of the Patent Law: “If a dispute arises as a result of exploitation of a patent without permission of the patentee, that is, the patent right of the patentee is infringed, the dispute shall be settled through consultation between the parties”. For what concerns Shuanghuan Auto, it was supposed to know the products concerned quite well and therefore could effectively participate in mutual consultation, which would be beneficial to HONDA in protecting its rights. HONDA did not follow this effective standard dispute resolution when Shuanghuan Auto’s distributors received letters during the litigation.

In contrast, Honda sent other letters to multiple dealers of Shuanghuan during the legal proceedings; the letters only recorded the basic information concerning the patent and did not list the specific infringement comparison analysis nor did they inform the dealers that Honda and Shuanghuan both sought judicial remedies from the court. At this stage, the dealer's knowledge of the allegedly

infringing product was not as deep as that of the manufacturer. Their ability to judge the status quo of the infringement dispute was inferior to that of the manufacturer as well and they were more likely to be led by a C&D letter to be more cautious in their approach to circumvent any possible infringement. Therefore, Honda’s follow-up letters were deemed to have the effect of cracking down on competitors and violating Article 2 of the Anti-Unfair Competition Law: “A business operator shall, in his market transactions, follow the principles of voluntariness, equality, fairness, honesty and credibility and observe the generally recognized business ethics”.

The sending of these two rounds of letters brought different results for HONDA in terms of protection of its rights, as the timing and recipients of its letters changed. Therefore, special attention should be paid to these two factors, which led to a different duty of care in different cases. Regarding the timing of sending a Cease and Desist letter, before litigation the timing is fine if the allegedly infringing product and actions of its manufacturer are clarified in the letter along with the sender’s rights being proved by relevant certificates, including a patent certificate, a copy of patent registry etc. Necessary comparative analysis of the allegedly infringing and right-holder products should also be attached. After a lawsuit is filed, information about the ongoing judicial proceedings or administrative procedures is required in addition to the above. Regarding the recipients: a manufacturer is required to receive necessary comparative analysis of allegedly infringing and right-holder products only, while a distributor or seller should be provided with an analysis as detailed as possible, for the recipient to decide on its own right whether to act as requested. This can help to avoid disrupting the commercial stability or breaching the fair competition principle.

Conclusion

In conclusion, sending a C&D letter is an efficient and low-cost mean of rights protection. It is significantly beneficial to right-holders when used properly, protecting their rights in a timely manner without the burden of complex and tiring court proceedings. However, when sending letters parties should check in advance whether they are entitled to do it and consider what to include in those letter, regarding the timing and the target, in order to avoid legal risks in their legal action.