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# Everything You Should Know before Sending a Cease & Desist Letter in China

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Everything You Should Know before Sending a Cease & Desist Letter in China

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To protect your IP rights, sending potential infringers a Cease & Desist Letter or Warning Letter (the “**Letter**”) is one of the most common tools. Is it a necessary step before starting any legal proceedings in China? What legal consequences does it entail? Are there any issues that must be attended to? How effective is the Letter? This article will try to project a bird’s eye view regarding everything you should know before sending the Letter to your potential infringers.

## Purpose of Sending the Letter

Sending the Letter is not a condition precedent for the right holder to initiate legal actions in China. The purpose of sending the Letter includes:

- Demand: ask the opposing party to cease the infringement, rectify the illegal activities, or implement specific legal obligations;
- Warning: notify the opposing party of the lawful rights infringed and legal risks, liabilities and consequences arising from such infringements;
- Declaration: declare the lawful rights and legal position the right holder may have, and recount the limitation of actions;
- Inquiry: state the legal position and ask for a response, so as to initiate a negotiation.

## Legal Effects of Sending the Letter

To protect your IP rights, sending the Letter may have the following legal effects:

### 1. To recount the limitation of actions

In China, the general limitation of actions for civil cases is two years (it is revised to three years under the General Principles of the Civil Law of the People's Republic of China which will come into effect on October 1, 2017) as of the date the right holder knows or should know the infringement. Had the right holder filed the lawsuit with the people's court beyond the two year limitation period, the damages for infringement shall be calculated over two years prior to the filing date.

However, in the event that the right holder sent the Letter with specific demands, the limitation of actions shall be recounted. Therefore, even if the right holder filed the lawsuit two years after the date it knew the infringement, it is still entitled to claim the damages for infringement arising from two-year period as of the filing date if such letter was sent to the infringer timely.

## 2. To prove the subjective bad faith of the opposing party

In the event that the infringer did not cease the infringement after receiving the Letter from the right holder, it is very likely to be held by the court as an intentional infringement.

In some scenarios involving suspected joint infringement (or indirect infringement) where subjective intention would be a condition precedent for identifying the infringing acts, it would become a critical evidence.

## 3. To serve as a reference factor for the people's court's determination of tortious damages

Chinese laws have not provided for punitive damages for patent infringements. In practice, it is difficult for the right holder to prove its losses arising from the infringement or the financial benefits received by the infringer. Therefore, statutory compensations generally the way with which the courts reckon their awards. In deciding the statutory compensation, the seriousness, nature, and subjective bad faith are all considered by the courts.

Therefore, if the right holder can prove that it had sent the Letter to the infringer, this may serve as a reference when the court decides the nature and seriousness of the infringements and the amount of damages.

## Adverse Effects and Legal Risks of Sending the Letter

It is generally recognized that sending the Letter is a low cost and harmless act of safeguarding your rights. However, things don't always turn out this way. The following negative consequences should be noted when sending the Letter:

1. Sending the Letter may alert the recipient, who may be motivated to take counter measures to destroy evidence. This will cause difficulties for the right holders to prove their cause of action. In China, IP right holders, to a great extent, have to collect

evidence on their own to place their cases on file. IP infringements are evasive in nature, which means that the right holders have to secretly collect evidence. Once the Letter is sent, the infringer will know that its activities were noticed and targeted, and the chance of obtaining evidence by a trap order will decrease significantly. The infringer, in some extreme cases, will temporarily cease infringements, or change its entity and mode of business. This will lead to the right holder spending more to carry out its investigations.

2. A reckless Letter may also lead to the right holder being urged to file the lawsuit, or even being sued regarding the recipient's declaration of non-infringement. Article 18 of the Interpretations of the Supreme People's Court Concerning Certain Issues on the Application of Law for the Trial of Cases on Disputes over Infringement of Patent Rights provides that *"Where the right holder gives a warning to others regarding the infringement upon patent rights and the opposing 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 opposing party institutes a proceeding to 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."* In addition, the above provision is not only applicable to patent lawsuits, but also applies, mutatis mutandis, to other IP lawsuits.

3. Sending the Letter improperly may form the basis of a separate action of libel, defamation and other torts causing economic loss by the recipient. If the right holder had been negligent in the aspects of wording, scope of recipients and time of delivery when sending the Letter, this may incur tortious liabilities. For example, in *EDAN vs. Mindary* case (dispute over commercial defamation), and *Shuanghuan Auto vs. Honda* case (dispute over declaration of non-infringement), the courts hold the right holders liable for their improper Letters.

## Common Responses and Consequences of Sending the Letter

The common responses of the recipients following the Letter include:

- Non-response: some recipients will ignore the Letter, or refuse to respond.
- Denying infringement: some recipients will declare orally or in writing that their acts do not constitute infringements.
- Demanding more or detailed evidence of infringement (a common response): these infringers normally wish to stall for time by this way, or try to fish out whether the right holder has the conclusive evidence to prove the infringement, so as to evaluate their follow-up plans or strategies.
- Denying the existence of infringing acts, but recognizing potential risks and is willing to have further negotiations: this is another typical response, which reflects the

recipients' awareness of the relevant risks, and their sensitiveness to the infringement allegations.

- Admitting infringement and agreeing to undertake rectification in the hope of exempting infringement liabilities: these recipients are generally inadvertent tortfeasors conducting mostly lawful business operations. They react in this manner in the hope of exempting them from infringement liabilities.
- Taking preemptive actions by filing a declaration of non-infringement case: in some extreme cases, the recipient may file such a lawsuit in order to choose the most convenient forum for its lawsuit.

## Scenarios where the Letter May Solve Problems

Based on past experience, we conclude that the Letter may serve as an effective means of safeguarding the rights in the following circumstances:

1. The right holder wishes to settle with the infringer and does not want to resolve disputes through aggressive means, such as filing lawsuits.
2. It is estimated that the recipient is highly likely to cease the infringement after the receipt of the Letter. These situations would be:
  - The opposing party is a small enterprise and non-aggressive;
  - Their tortious acts are non-intentional in nature and they wish to rectify the tortious acts.
3. The right holder has clear and convincing evidence of the obvious infringement. Both parties, especially the alleged infringer, recognize that litigation is not the best way forward in those black-or-white cases.
4. The right holder does not wish to pursue costly actions.

## Right Timing for Sending the Letter

Timing for sending the letter is also important. As discussed, after sending the Letter, the recipient may respond differently. There are also potential legal risks and uncertainties for the sender. We therefore advise that the right holder should make the following preparations before sending the Letter:

### 1. Key Infringement Evidence Has Been Preserved

Before sending the Letter, it is advised to fix and secure the key evidence, especially the evidence which would be likely to be destroyed, hidden or changed. For example, the opposing party offers the infringing products online, and the right holder has to obtain the infringing samples by means of placing trap orders, etc. Such evidence preservation work should be completed beforehand.

## 2. Preparations for Filing or Response to Lawsuits Have Been Completed

We believe that the Letter should be based on solid analysis and evaluation of the infringement, and only after confirmation that we have a good case against the recipient, can we send the Letter. In case the opposing party files a counter notice, the right holder may react in a prepared and calm manner and avoid the risks of losing the case.

## 3. Countermeasures for Different Responses Have Been Developed

The right holder should fully consider the responses that the opposing party may give, and make corresponding deliberation and decisions. In this way, the right holder may act against different responses as planned in a timely manner.

## Follow-ups after Sending the Letter

In regard to different responses, we set below corresponding follow-up measures:

- Non-response: the right holder may take active follow-up actions and try to contact the recipient to get a response in different ways such as by phone or E-mail.
- Denying infringement but the possible infringement remains: we advise the right holder to fully prepare for litigation in this situation. In cases when the infringer is not a key target and the right holder lacks convincing evidence, a balance will be reached if the right holder is not determined to file a lawsuit and the recipient is not confident to file a declaration of non-infringement action. Then, the right holder needs to decide whether to collect additional evidence or file the action directly.
- Asking for further evidence: this is a common response, which should be dealt with on a case-by-case basis. In some situations, further evidence may bring forth positive results for the right holder, but the early revelation of evidence may also give the infringer more time to prepare for the case. How to react, therefore, hinges on what evidence the right holder has obtained.
- Denying the existence of infringing acts, but recognizing potential risks and is willing to have further negotiations: this is another typical response, which reflects the recipients' awareness of the relevant risks, and their sensitiveness to the infringement allegations.
- Admitting infringement and agreeing to undertake rectification: the right holder can require the recipient to sign a letter of commitment or grant it a patent license.
- Taking preemptive actions by filing a declaration of non-infringement case: we advise the right holder to be fully aware of the risks before sending the Letter and to file the infringement suit to the most convenient forum court as soon as possible. In the meantime, it should be noted that a reckless Letter without certain clear facts should not be sent in any circumstances.

## Way to Reduce or Avoid Legal Risks in Sending the Letter

In general, there are no specific rules on what to disclose in the Letter in China. According to the principles reflected in the precedents from the Supreme People's Court, the courts will consider the sender's intention, the content of the letter, how the letter is sent and the scope of the recipient when deciding whether issuing the Letter is a safeguarding-rights act or has actually constituted an infringement of other's lawful rights. The key in the adjudication is whether the sender has fulfilled the duty of care and whether the sender has the intention on unfair competition or infringing acts.

## 1. Determining the Scope of the Recipients

In general, recipients of the Letter include: (1) the manufacturer of the accused product or the party who directly commits an infringement act; (2) relevant parties: distributors, retailers, importers, customers or users of the infringer, e-commerce platforms, suppliers and so on. Duty of care and legal liabilities of the right holder may vary from one recipient to another. In principle, when the Letter is sent to any third parties other than the infringer, as a broader scope of recipients is involved and larger consequence and impact may arise, the sender would bear more duty of care in order to avoid legal liabilities arising from infringing other parties' lawful rights due to an improper Letter; (3) agents, consultants or other interested parties of the accused parties (such as the lawyers and sponsors who perform the stock listing application on behalf of the accused party); (4) government agencies; (5) general public.

The ways and scope of the Letter delivery include direct delivery and public delivery. Direct delivery means sending the Letter to the specific recipient, whereas public delivery means publicizing the Letter to specific or general parties. Likewise, delivery methods may vary for different types of recipient. The sender would bear more duty of care and face higher legal risks when a broader scope of recipients is involved.

When the recipients are only limited to the accused infringers, the right holder should directly state the infringing facts and include warnings and demand in the Letter. The non-public delivery generally will not bring about the risk of commercial defamation or libel. However, the recipients may push the sender to institute a proceeding in the court or even worse, win the race to court by filing a declaration of non-infringement case.

The second type of recipients listed above entails more caution. Although they may commit certain infringements (for example, using or selling the accused products), their actions actually are subordinate to the manufacturing of the infringing products and they may stop dealing with the manufacturers, which may have a relatively huge impact on their own interests and those of the manufacturers of infringing products. In this regard, if the right holder has no sufficient evidence or judgment to identify the existence of an infringement act, it should be very cautious in sending the Letter to such recipients.

The third type of recipients listed above are always served with the Letter by means of being copied in an email, and the purpose of the Letter is to notify the recipients about

the warnings the right holder has sent, instead of requesting them to stop the infringement. Such recipients would generally be the lawyers, agents and consultants who performed the stock listing, financing and bidding on behalf of the accused infringers. Though the accused infringers are obliged to disclose relevant facts to these recipients under the laws and regulations, sending Letters to these recipients may directly lead to the obstacle of the accused infringer's business related to the stock listing, financing and bidding. In cases the right holder's claims are overruled in the judicial/enforcement proceedings in the future, the right holder would bear the risk of sending improper Letters.

There are two scenarios when the Letter is sent or copied to government offices as the recipients; one is that the recipient is the competent authority in charge of the dispute, while the other is that the recipient is the competent authority in charge of other cases of the accused party. The former scenario would be, for example, to send the Letter to the State Intellectual Property Office and its branches with regard to the dispute over patent infringement. In practice, the right holder should take the action by means of filing an administrative complaint and generally without any risk of infringement. The latter scenario is very typical, for example, the Letter is sent or copied to the competent authority in charge of other cases of the accused party, for example, sending the Letter to China Securities Regulatory Commission when the accused party is applying for the stock listing. Since it is not the competent authority in charge of the dispute, sending the Letter would have the obvious intention to impede other business of the accused party. Therefore, in case the right holder's claims are overruled in the future and causing damage to the accused party's lawful rights and interests, the risk of infringement still exists, and the risk of filing a declaration of non-infringement case by recipients is also high.

For the fifth type of recipients, publicizing the Letter to the general public undoubtedly carries higher risks. Because of its broad coverage, once the right holder fails to establish its case in the courts, there will be a high risk that the publication will be determined as a tortious infringement for breaching its duty of care, or employing improper wording in the Letter with the intent of unfair competition. Also, there are cases on whether publicizing the Letter to the general public constitutes a tortious activity heard by the courts, and the adjudication in favor of the recipient has been awarded by the courts. [\[1\]](#)

## 2. Sending the Letter with Proper and Legitimate Purpose of Protecting One's Rights

In resolving disputes arising from sending the Letter, one of the key factors is the sender's purpose and subjective intention. If the purpose of the Letter is to protect its lawful rights, rather than to mount an assault on its competitors or sabotage the cooperation between the competitors and their trading partners, or tarnish the reputation of competitors and like unfair competition objects.



In practice, it is difficult to prove one's motive and purpose (except through procedures equivalent to discovery in common law jurisdictions to reveal direct evidence of the parties' intent). Normally, subjective intention and purpose may be only inferred from the way one acts, the consequences of one's action and other circumstances.

### 3. Status of the Right Holder when Sending the Letter

If the right holder has clearly known that its right is not real and stable, or risky to be invalidated or cancelled by third parties, it would carry higher risk when sending the Letter. As aforementioned, sending the Letter based on lawful rights would be safeguarded by law. In case the right holder has been fully aware of the defect of right or that the right no longer exists, it is difficult to prove the right holder's legitimacy on the purpose and the acts of sending the Letter.

In EDAN vs. Mindary case, the Supreme People's Court held that though the third party has filed a request for invalidation of patent, it, however, does not mean the patent is in the status of uncertainty. In addition, the right holder's act does not mean illegal even if the patent has been invalidated after the Letter was sent.

However, in practice, if the right holder is fully aware of the risk of invalidation of its patent when sending the Letter, the delivery manner and scope of recipients should be dealt with caution. For example, the right holder has known that there exists prior art which may harm the novelty or creativity of its patent when filing an application; or, even though its patent has been granted in China, the patent family is rejected or invalidated in the process of being reviewed in other countries as it has been found that there exists comparative literature which may harm the novelty or creativity of its patent application and may lead to the high possibility of invalidating its patent which has been granted in China.

### 4. Watch out the Wording in the Letter

#### (1) Avoiding Fabrication of False Facts, Presenting the Facts Impersonally, Truly, and Comprehensively

The sender should not fabricate false facts when sending the Letter to other interested parties instead of the infringer, otherwise it would be accused of commercial defamation under the Anti-Unfair Competition Law of the People's Republic of China, or libel under the Tort Law of the People's Republic of China.

Other than the above, another higher demand is that the right holder should present the facts impersonally, truly and comprehensively in the Letter. This demand requires not only the truth of fact in the Letter, but also the duty of care the right holder should meet. The right holder should not conceal the facts which may affect the recipient to make a business decision.



For example, in *Shuanghuan Auto vs. Honda*, the Supreme People's Court held that Honda did not disclosed in its Letter that it and Shuanghuan both had sought remedies from the courts and "other facts that help the distributors determine whether to cease the accused infringing activities" and thus constituted an act of unfair competition.

Another example may be found in the case of *Foshan Taidian vs. Zhongshan Beiling Appliance*, the court held that although Foshan Taidian obtained the Decision issued by Guangdong IP Bureau that the Plaintiff had committed an infringement, "the Decision only indicated that Zhongshan infringed one of the patents owned by Foshan Taidian, and not four patents as declared by Foshan Taidian in the announcement. Foshan Taidian took undetermined and inconclusive facts or conclusions as determined and conclusive facts or conclusions and widely publicized the same in a determined and conclusive manner, and its conduct had infringed Zhongshan's business reputation."

## (2) Avoid Offensive or Demeaning Wording in the Letter

When sending the Letter to third parties other than the infringer, the right holder should present the relevant facts in a manner which is impersonal, true and comprehensive, and avoid using demeaning wording which may lead to the libel of the third party.

It should be noted that, the provision on commercial defamation under the Anti-Unfair Competition Law may also be applicable to non-factual descriptive "business comment". The Supreme People's Court referred to and briefly explained the concept of "business comment" in *EDAN vs. Mindary* for the first time. In general, , although making a business comment without fabrication of facts, it is a way to exercise one's right of freedom of speech, and is still bound by the law. Such business comment should be limited to "no denigration comments that have substantial influence on the understanding of the relevant public and derogate competitor's reputation."

Furthermore, the determination on the infringement of the reputation under general civil tort is slightly different from that on the commercial defamation under the Anti-Unfair Competition Law. Commercial competitive relationship is a condition precedent when deciding commercial defamation, while the determination on reputation infringement is not. In particular, in cases involving individuals, the courts may require stricter on the wording of the Letter when deciding whether the social reputation of the involved individual is tarnished due to the Letter.

## (3) Adequate Disclosure of Necessary Information in the Letter

The requirement of adequate disclosure of necessary information in the Letter is referred to by the Supreme People's Court in both *EDAN vs. Mindary* and *Shuanghuan Auto vs. Honda*. However, there are ambiguities about the degree and the rules of adequate disclosure and the standards of the judgment.

Specifically speaking, the court held in both *EDAN vs. Mindary* and *Shuanghuan Auto vs. Honda* that, a legitimate Letter should include at least: (1) the specific right the

sender claims for protection (for example, the patent number); (2) the full name of the accused product (or the model name of the product); (3) the details of the accused infringing acts (manufacturing, selling, etc.).

However, the two cases held different opinions on whether to include the following two aspects when making a disclosure:

#### (4) Whether to Include Analysis and Reason of the Claimed Infringement (Infringement Comparison) in the Letter

In *Shuanghuan Auto vs. Honda*, the Supreme People's Court held that the sender constituted the infringement based on the fact that the sender failed to include the reason and necessary infringement comparison in the Letter. However, in *EDAN vs. Mindary*, the Supreme People's Court did not consider the factor when deciding the infringement of the sender.

In practice, it is not common for right holders to include the infringement comparison in the Letter. In addition, considering the complexity of the infringement comparison, the courts would not require such infringement comparison when the right holder files the case. Therefore, this Article takes the position that requesting the right holder to include infringement comparison in the Letter would be over demanding. Nevertheless, it is advised that the right holder should sketch out the reason of the claims and make sure that its information disclosure would have met the higher duty of care.

#### (5) Whether to Include the Status of Relevant Legal Proceedings (Lawsuit or Invalidation Procedure, as well as Relevant Outcomes) in the Letter

In *Shuanghuan Auto vs. Honda*, the Supreme People's Court held that the sender constituted an infringement based on the fact that the sender failed to disclose that "it and Shuanghuan both had sought remedies from the courts" in the Letter. However, in *EDAN vs. Mindary*, the Supreme People's Court did not consider that the sender had actually filed a counterclaim for patent invalidation when deciding the infringement of the sender.

In the event that the right holder has filed a case against the accused infringer, generally it would include such information in the Letter to the third parties. The right holder, however, usually would not specifically state the legal proceedings initiated by the accused infringer against the sender in the Letter.

This Article takes the position that, in practice, requesting the right holder to include all the legal proceedings between it and the opposing party in the Letter would be over demanding. Nevertheless, according to the common principle delivered by the Supreme People's Court in the above two cases, it is advised that the right holder should avoid causing prejudice or confusion to third parties with improper wording in the Letter, and make sure to meet the sufficient duty of care.

## 5. The Influence of the Final Outcome of Legal Proceedings on the Legitimacy of Sending the Letter

If interested party initiates legal proceedings other than sending the Letter, whether the final outcome of legal proceedings would have an influence on deciding the sender's subjective intention of the infringement and the fulfillment of duty of care when sending the Letter?

This Article takes the position that, the Supreme People's Court has elaborated that, theoretically, the final outcome of legal proceedings and the final determination of courts should not be taken as the basis for deciding whether the right holder has constituted the infringement; however, in practice, the final outcome of legal proceedings would inevitably be used to as a basis to evaluate the subjective intention of the right holder, the fulfillment of duty of care and the loss suffered by the opposing party.

Based on the deduction from legal theory, if the right holder's claim is ultimately supported by the court, namely the accused infringer constituted an infringement, and the accused infringing act should be stopped. Since the accused infringer has no relevant legal interest which should be protected, it is certainly difficult for the accused infringer to claim for the damage arising from the Letter sent by the right holder, unless the wording in the Letter has demeaned the legal personality of the accused infringer, and has caused damages to the right of personality beyond the scope of IP infringement.

On the contrary, if the right holder's claim is not supported by the court, or the relevant right is invalidated, then the accused infringer may have a legal interest which is protected by law, and it should be considered that whether the right holder's act of sending the Letter would constitute the infringement. According to general doctrine of liability fixation of tort, it is then necessary to consider the subjective intention of the sender when sending the Letter (whether it was intentional or grossly negligent, and whether the duty of care had been breached). Whether the right holder constitutes an infringement is directly related to that whether it has the subjective fault.

In *EDAN vs. Mindary*, as Mindary won part of the case in the first instance, the court decided that Mindary did not constitute an infringement (though some of Mindray's patents were invalidated and Mindray withdrew several lawsuits). The court held that:

*"In patent infringement cases, the Letter sent by the right holder should be based on facts of a reasonably high degree of certainty. However, excessive requirement for the certainty and definiteness of the fact will impede the effect of the Letter and defeat the purpose of setting such mechanism. Furthermore, whether the facts described in the Letter reach the required level of certainty, in another word, to prove the sender did not fabricate facts or libel when issuing the Letter, could be identified by a variety of ways and the infringement confirmed by the first instance judgment is definitely one of those*

*ways. In this regard, requiring that only the infringement fact identified by the final judgment could serve as the basis for judgment is going too far. Although the sentence of the first instance was reversed, the result would have nothing to do with the judgment of whether the right holder has fulfilled its duty of care or not when issuing the Letter.”*

On the contrary, in Shuanghuan Auto vs. Honda, Honda finally lost the patent infringement lawsuit against Shuanghuan Auto. With regard to the declaration of non-infringement dispute, the court commented that “*Honda violated Article 2 of the Unfair Competition Law as it did not fulfil the duty of care when it sent the Letter carrying uncertain facts to a broader scope of recipients in the second stage. When expanding the scope of the recipients, the sender should meet a higher level of due care than that when only sending the Letter to the manufacturer.*”

This article therefore takes the position that, a solid legal analysis and an accurate identification of the infringement are crucial when the court decides whether the sender has the subjective fault. The sender who made an error in determination of infringement and lost the case is more likely to be deemed as breaching its duty of due care compared with the sender who finally wins the case. Thus a solid legal analysis and identification of the infringement prior to sending the Letter is essential to reduce the risk.

## Conclusion

Sending the Letter is one of the most common remedies for protection of IP rights. It is neither a necessary pre-condition for legal actions nor mandatory in China. However, there are many rules and principles to follow. The right holder should fully understand and consider these rules before sending the Letter so as to avoid risks of constituting the infringements (including infringement of reputation, commercial defamation and unfair competition) elaborated in this article.

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[1]See No. (2009) Zhe Zhi Zhong Zi No. 2, Guangzhou Zhaoying Hardware Co., Ltd. vs. Wang Yinxin, Zhejiang Province Higher People’s Court, (2009 Top 10 IP Cases in Zhejiang Province)

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