

Hong Kong-China Agreement Offers Advantages For IP Cases

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On Jan. 18, 2019, Hong Kong and mainland China signed a landmark agreement—the Arrangement on the Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters between the Courts of the Mainland and of the Hong Kong Special Administrative Region—considerably expanding the breadth of judgments mutually recognized and enforced between them.

Although Hong Kong is a territory of China, Hong Kong and Mainland China have distinct legal regimes, making special arrangements necessary for the cross-border enforcement of judgments between them.

The new arrangement applies to civil judgments, and once implemented (at a date to be determined), it will take the place of a 2006 arrangement, which was narrower in scope. The 2006 Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreement between Parties Concerned applies only to judgments (1) for money and (2) where the parties had, prior to the dispute, entered into an exclusive jurisdiction agreement, choosing either mainland Chinese or Hong Kong courts as the exclusive forum for their disputes.

The new arrangement, on the other hand, generally covers all civil judgments, i.e., monetary and nonmonetary rulings, but does not extend to punitive damages. Notably, this includes judgments for specific performance. The arrangement includes an enumerated list of excepted matters including administrative, regulatory, family, matrimonial, inheritance, bankruptcy and maritime matters. Moreover, the arrangement excludes judgments relating to arbitration (i.e., the validity of arbitration agreements, arbitral award set-aside actions, recognition and enforcement of arbitral awards or other jurisdictions), keeping in place a similar, pre-existing arrangement specifically for arbitral awards (the 1999 Arrangement Concerning Mutual Enforcement of Arbitral Awards Between the Mainland and the Hong Kong Special Administrative Region).

Another major exception relates to certain types of intellectual property disputes, which enjoy the opposite treatment in terms of remedy: For trademarks, trade dress, and counterfeiting, passing off, and the like, judgments for punitive damages may be honored, but specific performance (such as an injunction) will not be. Trade secrets are

the exception to the exception, where both punitive damages and specific performance are enforceable.

Under the arrangement, the party seeking enforcement must show that the court issuing the judgment (the “requesting place”) had personal jurisdiction over the matter and the place enforcing the judgment (the “requested place”) did not have exclusive jurisdiction. Personal jurisdiction is satisfied when the residence of the defendant, the place of the defendant’s business, or the place of performance of the contract or tort is situated within the requesting place. This safeguard is analogous to the U.S. courts requiring minimum contacts with a forum for due process.

Jurisdiction also could be established if the parties expressly agreed in writing to jurisdiction in the requesting place. However, if the place of residence of all parties is instead in the requested place, the arrangement requires that the dispute have some “actual connection” with the requesting place (e.g., where the contract was performed or signed or where the subject matter was situated).

In other words, parties may not use the new arrangement as a backdoor to enforcement in, for example, mainland China, when both parties reside in mainland China and the dispute has no connection to Hong Kong save for the fact that the litigation took place there. This encourages parties to litigate in their home turf if they are seeking to ultimately enforce at home.

The new arrangement also outlines other grounds for a court to refuse enforcement, including the violation of due process rights, the procurement of the judgment by fraud, a judgment or arbitral award has been issued or recognized in the requested place on the same dispute, or under the first-filed action rule (even if the antedating suit in the requested place has not yet reached final judgment). The requested court may also refuse enforcement where it believes it would be “manifestly contrary to the basic principles of law ... or public policy” of its jurisdiction.

What types of IP-related disputes are covered and what are the preconditions?

The arrangement recognizes liability for infringement or misuse of most traditional forms of intellectual property, e.g., those recognized in the Agreement on Trade-Related Aspects of Intellectual Property Rights, Article 1(2) (referring to Sections 1 through 7 of Part II), such as copyright, trademarks, geographical indications, industrial designs, integrated circuit designs, and trade secrets.

Conversely, while it covers judgments of infringement, it does not extend to judgments establishing invalidity. To do so would likely contradict the requirement against exclusive jurisdiction in the requested forum, where, e.g., the Beijing IP Court holds exclusive jurisdiction to review the validity of mainland Chinese patents and trademarks.

Beyond limiting reciprocal recognition to judgments of infringement only, the arrangement further carves out patent-related disputes entirely (both shorter term utility model patents and standard invention patents). With its potential to impact third-party jurisdictions, judgments relating to the royalty rate for standard-essential patents are also excluded.

And for the acts of infringement, unfair competition, or passing off related to nonpatent intellectual property, the arrangement further requires that (1) the intellectual property right must have been eligible for protection and protected and (2) the misconduct undermining that right must have occurred, both in the requesting place. These requirements help ensure that the original court had subject matter jurisdiction and that it observed the principle against extraterritoriality.

Simply put, to enforce in mainland China a Hong Kong court’s damages award for trademark infringement, the plaintiff in the original action must have asserted a valid Hong Kong trademark against infringing goods sold in Hong Kong. As another example, a rights holder may ask a Chinese court to enforce an injunction obtained in Hong Kong against further unauthorized disclosure and/or use of a reasonably secured trade secret to which defendant improperly gained access in Hong Kong.

What does this mean for U.S. companies doing business in the region and their IP counsel?

The arrangement strengthens Hong Kong as a cross-border dispute resolution forum for matters involving Chinese parties or multinational companies with Chinese subsidiaries, offering more efficiency and better protection over parties' rights. Under the common law in Hong Kong, trade secrets are protected under breach of contract and breach of confidence theories, for which civil remedies include damages and equitable relief. Assuming the jurisdictional requirements are satisfied, a party may bring suit in Hong Kong and later enforce against assets and actors in mainland China, without having to relitigate the dispute there.

Given that the mainland Chinese market may dwarf Hong Kong's own, however, it seems rights-holders would be more motivated to pursue this one-two punch strategy not for the purpose of collecting on the localized damages award, but for the broader injunctive impact. Such would be the case where, for example, an unauthorized disclosure, improper acquisition, and/or misuse of a plaintiff's confidential information takes place in Hong Kong, and where that misuse will extend to or continue in mainland China.

For U.S. companies that fall prey to data leakage or piracy either in Hong Kong or at the hands of a Chinese competitor based or located in Hong Kong, and for U.S. counsel, this arrangement means potentially bypassing litigation (1) in an unfamiliar civil law system, (2) conducted without traditional discovery mechanisms, and (3) whose pleadings are to be submitted in Chinese, rather than English. Under this arrangement, the aggrieved may choose to strategically litigate and collect evidence in Hong Kong and, upon prevailing, seek to enforce the judgment in mainland China to stop further bleeding.

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