

Is an Infringement Claim within the Scope of Arbitration Clause under Laws of PRC?

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For the last ten years, whether an arbitration clause such as “any disputes arising from, or in connection with, the execution of this agreement shall be resolved by arbitration” may be applied to an infringement claim has been a topic of heated discussion among the legal practitioners in China. This is a matter of great concern to arbitration practitioners in China because the case history of Supreme People’s Court has failed to clarify whether the courts or the arbitration tribunal should have jurisdiction over the infringement claims.

The Supreme People’s Court has offered its opinions in several cases regarding this issue in the past. However, it has continually shifted its position on the issue. For example, in the Supreme People’s Court’s **Minutes of the Second National Working Conference on Trial of Foreign-Related Commercial and Maritime Cases** (2005), a summary of the principles in the Supreme People’s Court’s decisions, which stipulated that “*whereas a valid arbitration agreement signed by parties to a foreign-related commercial contract has specified that ‘any and all disputes arising from or in connection with the contract shall be resolved through arbitration,’ in such case, if the plaintiff files a complaint at the court based on infringements in connection with any dispute arising from signing and the performance of the contract, the court shall not have jurisdiction over such case.*” However, in contrast to its previously published legal principle, in the Supreme People’s Court’s most recent decision, **AMSC v. Sinovel**[fn]AMSC (Suzhou) Ltd. v. Sinovel Wind Group, Ltd. (Sinovel) in **Re Software Copyright Infringement Dispute**, Min Ti Zi (No. 55), 2013, issued by China Supreme People’s Court on Jan. 26, 2014.[/fn], the Court held that a copyright infringement claim shall not be governed by the arbitration clause in the parties’ contract.

Background

The decision arises from a lawsuit filed by the Suzhou AMSC, the Chinese subsidiary of AMSC, a famous U.S. company operating in the wind and grid industry, against Sinovel, a manufacturer and exporter of wind turbines based in China.

In September 2011, AMSC lodged a civil action for copyright infringement at Beijing No. 1 Intermediate People’s Court. AMSC sought a cease and desist order and damages of USD 6 million from Sinovel for alleged unauthorized copying and use of AMSC’s software. In response, Sinovel filed a motion to remove the case from the court and transfer it to Beijing Arbitration Commission (“BAC”) in accordance with the arbitration clause in AMSC’s purchase contract with Sinovel, which states that

“all disputes arising from the execution of, or in connection with this contract shall be settled through friendly consultation between the parties. If no settlement can be reached through consultation, the dispute shall be submitted to arbitration with Beijing Arbitration Commission according to its arbitration rules.” Sinovel’s motion was later denied by the Beijing Intermediate People’s Court. Sinovel then filed an appeal of the decision to the Beijing Higher People’s Court, which was also rejected. In the view of Beijing Court, the alleged infringement action was not inevitably connected with contract performance. Accordingly, the judicial court, not the arbitration institution, should hold jurisdiction over the infringement dispute. The decision was once again appealed to the Supreme People’s Court.

Interestingly, in another lawsuit filed by AMSC at Hainan People’s Court[fn]AMSC (*Suzhou*) Ltd. v. Sinovel Wind Group, Ltd. (*Sinovel*) and Guotong Electric (*Guotong*) in **Re Software Copyright Infringement Dispute**, Min Ti Zi (No. 54), 2013, issued by China Supreme People’s Court on Jan. 26, 2014.[/fn], while the parties and the facts were the same, the ruling of the lower courts went in the opposite direction. AMSC’s claim of copyright infringement against Sinovel and Guotong Electric was denied by the court based on lack of jurisdiction due to the arbitration clause. In the opinion of Hainan Court, AMSC’s allegation of copyright infringement is targeted on the software provided pursuant to the purchase contract. Hainan Court concluded that the infringement claim was a dispute arising from the contract performance or in connection with contract performance, which should be bound by the arbitration clause. That case has also been appealed to the Supreme People’s Court.

Arguments Made by the Parties before the Supreme Court

Sinovel’s arguments is that: first, the dispute before the court arises from Sinovel’s execution of the purchase contract. Software is considered a good under the purchase contract. Since there is a valid arbitration clause within the purchase contract, the court should dismiss the case and compel the parties to submit the dispute for arbitration. Secondly, the question whether Sinovel’s act constitutes an infringement of AMSC’s copyright or a breach of contract can only be determined after review of the purchase contract. Therefore, the dispute is not independent of the purchase contract.

AMSC’s arguments is that: since the dispute in this case is not a breach of contract but a copyright infringement claim that involves Sinovel’s misappropriation of AMSC software code and then copying the code into its wind turbine system, the purchase contract is unrelated to the dispute at issue. Additionally, the parties did not reach any agreements on a method of resolving the copyright infringement dispute. Thus, the arbitration agreement contained in the purchase contract is not binding upon the parties for the infringement issues.

Decision of China Supreme People’s Court

AMSC’s claim of copyright infringement is based on Sinovel making unauthorized copies of their code into the AMSC’s wind-turbine control software. Although the software is considered an item in the purchase contract, the software code is not within the scope of the purchase contract. Looking at the purchase contract, it does not indicate that the parties have reached any agreements about the copyright of the software. The allegation of AMSC of the software copyright infringement is not dealt with by the purchase contract or is apparently not a dispute that arises from contract performance. Thus, the copyright infringement issue shall not be subject to the jurisdiction of arbitration.

Pursuant to Art. 28 of **PRC Civil Procedure Law**, any claim of infringement shall be governed by the court where the defendant resides or where the act of infringement took place. The court has the discretion to look into the contract in determining whether the arbitration clause that reads *“all disputes arise from the execution of, or in connection with this contract”* shall include the infringement dispute.

The copyright infringement is not considered a dispute that arises from the execution of, or in connection with, the purchase contract. Therefore, the court, not the arbitration commission, shall have the jurisdiction over this case.

Implication of AMSC Case

Based on China Civil Procedure Law and its practice, the granting of the Supreme People's Court for third instances can only happen in very limited circumstances. AMSC case shows the complexity and difficulty in balancing the forum shopping issue when tort and breach are at conflict in terms of jurisdiction.

In today's world, it is more and more common that the transaction of tangible goods is linked with "intangible" intellectual property. China Supreme People's Court's decision in AMSC illustrates that the arbitration clause in a sales contract between parties does not naturally grant jurisdiction over the IP infringement claims even if the wording of the arbitration clause reads "all disputes arise from the execution of, or in connection with this contract shall be subject to arbitration". It is understood from the decision that the seemingly proper forum to protect parties being harmed in an infringement dispute shall be the judicial system unless the party advocating arbitration can prove that the infringement dispute arises from the contract performance. However, this decision raises a serious concern. Even if a valid arbitration clause exists between parties, since the Court does not review the substance of the claim when the case is filed, a party that wishes to avoid arbitration could file a frivolous infringement claim to ensure court jurisdiction. Additionally, if the party intends their arbitration clause to also cover possible IP infringement disputes along with goods transactions, they need to tailor the wording of the arbitration arrangement very carefully and expansively for that goal.