

立法會
Legislative Council

Ref : CB4/BC/1/16

LC Paper No. CB(4)833/16-17
(These minutes have been seen
by the Administration)

Bills Committee on Arbitration (Amendment) Bill 2016

Minutes of the second meeting
held on Monday, 20 February 2017, at 8:30 am
in Conference Room 3 of the Legislative Council Complex

Members present : Hon Martin LIAO Cheung-kong, SBS, JP (Chairman)
Hon Abraham SHEK Lai-him, GBS, JP
Dr Hon Priscilla LEUNG Mei-fun, SBS, JP
Hon Paul TSE Wai-chun, JP
Hon Dennis KWOK Wing-hang
Hon Holden CHOW Ho-ding
Hon YUNG Hoi-yan
Hon CHAN Chun-ying
Hon CHEUNG Kwok-kwan, JP
Dr Hon YIU Chung-yim

Members absent : Hon James TO Kun-sun
Hon Alvin YEUNG
Dr Hon Junius HO Kwan-yiu, JP

Public officers attending : Item I
Department of Justice

Miss LEE Sau-kong
Senior Assistant Solicitor General (Special Duties)

Mr Clifford TAVARES
Senior Assistant Law Officer
(Civil Law) (Commercial) I

Ms Ada NG
Senior Government Counsel

Miss Emma WONG
Senior Government Counsel

Miss Jessie LAU
Government Counsel

Intellectual Property Department

Ms Maria Kaiser NG
Deputy Director of Intellectual Property (Atg)
Intellectual Property Department

Miss Carole MOK
Solicitor (Registration) 3
Intellectual Property Department

Clerk in attendance : Ms Sophie LAU
Chief Council Secretary (4)2

Staff in attendance : Mr Alvin CHUI
Assistant Legal Adviser 3

Miss Joyce CHING
Senior Council Secretary (4)2

Miss Vivian YUEN
Legislative Assistant (4)2

I. Meeting with the Administration

Follow-up to the issues arising from the meeting on 5 January 2017

LC Paper No. CB(4)579/16-17(01) -- Supplemental Paper on the Government's Response to the Issues Raised by the Bills Committee at the Meeting of 5 January 2017 - Views of the Competition Commission

LC Paper No. CB(4)555/16-17(01) -- Government's Response to the Issues Raised by the Bills Committee at the Meeting on 5 January 2017

Other relevant papers

File Ref.: L/M (5) to LP 19/00/9C -- Legislative Council ("LegCo") Brief

LC Paper No. CB(3)190/16-17 -- The Amendment Bill

LC Paper No. LS14/16-17 -- Legal Service Division Report

LC Paper No. CB(4)365/16-17(01) -- Letter from the Department of Justice dated 22 December 2016 responding to the letter dated 12 December 2016 from the Assistant Legal Adviser of the LegCo Secretariat

LC Paper No. CB(4)365/16-17(02) -- Marked-up copy of the Amendment Bill prepared by the Legal Service Division (Restricted to members)

LC Paper No. CB(4)365/16-17(03) -- Background brief on the Amendment Bill prepared by the LegCo Secretariat

The Bills Committee deliberated (Index of proceedings attached at **Annex**).

Briefing by the Department of Justice ("DoJ")

2. The Administration briefed members on the papers which set out the Administration's responses to the issues raised by members at the meeting on 5 January 2017 (LC Paper No. CB(4)555/16-17(01) and LC Paper No. CB(4)579/16-17(01)).

Clause-by-clause examination of the Bill

3. The Bills Committee completed clause-by-clause examination of the Bill.

Follow-up actions required to be done by the Administration

Admin

4. Members noted that the proposed section 103D(6), which read as "The power given to an arbitral tribunal under section 70 to award any remedy or relief in deciding an IPR dispute is subject to any agreement between the parties to the IPR dispute" was drafted having regard to the practice adopted in the United Kingdom ("UK"). Members then requested the Administration to research into relevant law and practice adopted by other common-law jurisdictions, in particular Singapore, in respect of the power given to the parties to an arbitration in limiting the remedies or reliefs being awarded by an arbitral tribunal in deciding IPR disputes. The findings of the research should include whether any common-law jurisdiction(s) had adopted a practice contrary to that adopted by the UK.

5. The Administration indicated that it was contemplating proposing Committee Stage Amendments ("CSAs") to amend the commencement date of Part 2 of the Bill (except in relation to proposed new section 103J) from 1 October 2017 to around six months after the gazettal of the amendment Ordinance, in order to better reflect the policy intention. Such proposed CSAs would be circulated to Members for consideration.

Legislative Timetable

6. The Bills Committee agreed that the Administration's response in respect of paragraphs 4 and 5 above should be circulated to members for their consideration of whether a further meeting should be held to discuss the issues therein. If no further views were raised by members, the Bills Committee would be deemed to have completed the scrutiny of the Bill.

(Post-meeting note: The Administration's response and the draft CSAs were issued vide LC Paper No. CB(4)654/16-17(01) on 27 March 2017. In addition to the CSAs on commencement date, the Administration also proposed to introduce a CSA to add Angola, a newly acceding party to the New York Convention, to the Schedule to the Arbitration (Parties to New York Convention) Order (Cap. 609A). By the deadline on 3 April 2017, no members had raised further views on the Bill. The Second Reading debate on the Bill is expected to be resumed at the Council meeting of 7 June 2017.)

III. Any other business

7. There being no other business, the meeting ended at 10:08 am.

Council Business Division 4
Legislative Council Secretariat
11 April 2017

Bills Committee on Arbitration (Amendment) Bill 2016

**Proceedings of the second meeting
held on Monday, 20 February 2017, at 8:30 am
in Conference Room 3 of the Legislative Council Complex**

Time Marker	Speaker(s)	Subject(s)	Action required
Meeting with The Administration			
000809-000839	Chairman	Opening remarks	
000839-002622	The Administration	<p>Briefing by the Administration on its responses to issues raised at the meeting on 5 January 2017 on the adequacy of the Bill in safeguarding competition, including the views of the Hong Kong Competition Commission (“Commission”) on the confidentiality of the arbitration agreement and arbitral award; and the issue of whether the parties should be required to register their arbitral awards with the Intellectual Property Department (LC Paper No. CB(4)555/16-17(01) and LC Paper No. CB(4)579/16-17(01)).</p> <p>In brief, the Administration took the view that the Bill would not give rise to any real competition law concerns. Arbitration is a competition-neutral procedure. The use of arbitration or the confidentiality of arbitration and arbitral awards is not, in itself, anti-competitive; nor does it, in itself, raise any issue of anti-competition under the Competition Ordinance (Cap. 619) (“CO”). In any event, under the arbitration and competition law regimes, namely the Arbitration Ordinance (Cap. 609) (“AO”) and the CO, there are sufficient safeguards to address competition concerns (if any) arising in the context of arbitration.</p>	

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		<p>The Administration further explained that if the court finds that an arbitral award gives effect to an underlying anti-competitive agreement, contrary to the CO, it may set aside the award or refuse to enforce it on the ground of public policy. Also, documents relating to arbitration, including arbitral awards, are subject to investigation by the Commission, if appropriate.</p> <p>The Administration reported that after the last meeting, the written views of the Commission had been sought and that the Commission shares the Government's view that the Bill and its implications for the arbitration process is "competition neutral". As regards the Commission's concern that where an intellectual property right ("IPR"), e.g. a patent, is found to be invalid in arbitration, confidentiality of the outcome of arbitration may result in asymmetry of information and costs between the successful challenger (who is no longer bound by the patent) and its competitors (who are still bound by the patent), the Administration stressed that arbitration is a private means to resolve private disputes between the parties, and an arbitral award has <i>inter partes</i> effect only. Each party choosing to resolve the dispute by arbitration has to incur time, costs and resources, and also bears the commercial and legal risks that the arbitrator may find against it. Meanwhile, a third party (e.g. another competitor or a new market entrant) is not bound by the award, regardless of its outcome. The third party could still pursue its legal rights against a party to the arbitration (e.g. the IPR owner) in court or in proceedings before the Registrar. The Administration did not consider that such asymmetry of information and costs would</p>	

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		<p>cause systemic unfairness to third parties.</p> <p>The Administration further explained that differential treatment of licensees and asymmetry of information exist as part of commercial reality. In line with the intellectual property ("IP") laws of other jurisdictions, under Hong Kong law, an IPR owner may generally license its IPR freely and is not obliged to license its IPR to all persons on the same terms, or at all. It was stressed that while there should be a "level playing field" in that market competition should be fair, this "level playing field" does not generally impose a "duty of candour" on an IPR owner such that it must disclose all information to all persons to the same extent, or required it to confer equal treatment on all business partners / licensees.</p> <p>The Administration also explained that competition issues, if any, may be considered in the context of arbitration as follows:</p> <ul style="list-style-type: none">(a) In the course of arbitration, the arbitrator may take competition law into consideration as part of the substantive law to be applied in determining the dispute.(b) Questions of law (including competition law) may be referred to the Court of First Instance ("Court") if the arbitration parties have opted-in section 3 of Schedule 2 to the AO.(c) After issue of the arbitral award, appeal may be made against the arbitral award on question of law (including competition law) if the parties have opted-in sections 5-7 of Schedule 2 to the AO.	

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		<p>(d) The Court may on application set aside an arbitral award or refuse to enforce it, on the ground of public policy. Public policy considerations may include contravention of Hong Kong competition law.</p>	
002622-003057	Dr YIU Chung-yim The Administration	<p>Dr YIU asked about the Administration's view and consideration(s) with respect to the two options proposed by the Commission to address the policy concern arising from the lack of transparency of the arbitration outcome. (See paragraph 13(a)-(b) of the Commission's letter dated 16 February 2017 to the Administration at Annex to LC Paper No. CB(4)579/16-17(01)).</p> <p>Referring to the two options, i.e requiring the registration of arbitral award before it may be enforced or allowing the competition concerns arisen during the arbitration process to be determined as a preliminary issue in the arbitration regime, where necessary, by the court, the Administration advised that:</p> <p>(a) there are mechanisms in the existing arbitration and competition law regimes to allow competition issues which may arise in the context of arbitration to be considered by the court, including the opt-in provisions in sections 3 and 5-7 of Schedule 2 to the AO which allowed parties to refer question of law to the court, or appeal against an arbitral award on question of law; and</p> <p>(b) it is the Hong Kong SAR Government's policy to maintain and enhance Hong Kong's status as a leading international arbitration centre, and confidentiality in Hong Kong's arbitration regime is a key</p>	

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		<p>feature for attracting parties to use arbitration service in Hong Kong.</p> <p>The Administration indicated that having balanced the various policy considerations, and the existence of mechanisms to safeguard third party interests, they took the view that the existing position regarding confidentiality of arbitration and <i>inter partes</i> effect of the ensuing award should be maintained.</p>	
003057-004232	Mr Holden CHOW The Administration Chairman	<p>Mr CHOW sought explanation from the Administration on the distinction between settling dispute by arbitration and litigation and the importance of confidentiality in Hong Kong's arbitration regime.</p> <p>Mr CHOW then asked if it was possible for two parties to make use of the confidentiality feature and come to an arbitral agreement which might be contrary to the CO. If so, he also enquired on how competition issues arising in the context of the arbitration might be addressed.</p> <p>The Administration explained that arbitration was a consensual arrangement between the parties to settle disputes by a private arbitrator instead of a judge in a court. In situation where the disputing parties would prefer to protect the commercial secrets involved in the disputes, the 'confidentiality' feature in the Hong Kong arbitration regime would be a factor attracting parties to resolve their dispute by arbitration. On the other hand, unlike court judgments which had binding effect on all, arbitral awards only had <i>inter partes</i> effect, i.e. not binding on any third parties.</p> <p>The Administration also stated that if there was any agreement in breach of the CO, the</p>	

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		<p>Commission had statutory powers to investigate into it and to take enforcement action upon receipt of complaints relevant to anti-competition or contravention of the CO.</p> <p>Further, as said earlier, the court might set aside an award or refuse to enforce it on the ground of public policy.</p>	
004232-004418	Mr Dennis KWOK The Administration	<p>Mr KWOK requested the Administration to confirm its stance in respect of paragraph 15(a)-(c) of the Commission's letter dated 16 February 2017 to the Administration.</p> <p>In response, the Administration clarified that the Bill does not seek to alter the substantive legal rights of the parties or third parties, the position of competition law in Hong Kong, or the power of the courts or the competition authorities in relation to competition issues under the laws of Hong Kong. The Administration would be prepared to include these clarifications in the speech to move the resumption of the Second Reading debate of the Bill if such were considered appropriate.</p>	
Clause-by Clause scrutiny of the Bill			
004418-004632	Chairman The Administration	<u>Part 1 - Clause 1(1)-(2)</u>	
004632-004742	Chairman The Administration	<p><u>Part 1 - Clause 1(3)-(4)</u></p> <p>In response to the enquiry raised by ALA3 in his letter dated 12 December 2016 regarding the commencement date of section 123 of the Patents (Amendment) Ordinance 2016, the Administration anticipated that the above section of the Ordinance would come into operation some time in 2019.</p>	

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004742-005003	Chairman The Administration	<p><u>[Part 2 - Clause 2]</u></p> <p><u>Part 2 - Clause 3</u></p> <p>In response to ALA3's enquiry on whether section 5(2) of the AO should be further amended so as to cover the proposed sections 103I and 103J, the Administration advised that clause 3 seeks to amend section 5(2) by adding references to the new provisions which concern the exercise of certain powers by the Hong Kong courts in respect of arbitrations which take place outside Hong Kong. The proposed new sections 103I and 103J were concerned with the interpretation of certain provisions of the Patents Ordinance ("PO") (Cap. 514) as amended by the Patents (Amendment) Ordinance 2016 when applied to arbitration proceedings. Moreover the PO was not mentioned in section 5(2) of the AO.</p>	
005003-005208	The Administration Mr CHAN Chun-ying Chairman	<p><u>Part 2 - Clause 4</u></p> <p>Mr CHAN Chun-ying asked for the reason for the inconsistency between the English and Chinese texts of the proposed Clause 4.</p> <p>The Administration explained that there was no discrepancy in meanings between the Chinese and English texts and both texts carried the same legal effect. The Administration supplemented that the Chinese text of section 70(1) was re-written to improve the language flow.</p>	
005208-005230	Chairman The Administration	<u>Clause 5 - sections 103A-C</u>	
005230-010135	Chairman The Administration ALA	<p><u>Clause 3 - section 103B</u></p> <p>ALA3 asked for further elaboration on the reason(s) for not providing specific</p>	

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		<p>definitions for some of the IPRs, such as "patent", "trade marks" and "copyright", which were defined in other ordinances in Hong Kong.</p> <p>The Administration explained that the disputes that would be arbitrated in Hong Kong could cover IPRs that were registered or subsisting in other jurisdictions. Moreover, some IPRs in other jurisdictions might be referred to by different names or protected in a different way.</p> <p>In response to the Chairman's request for an example of IPR being defined/protected in other jurisdictions but not in Hong Kong, the Administration advised that "geographical indications" had no <i>sui generis</i> (of its own kind/class) system of protection in Hong Kong and these IPRs are protected through registration as certification or collective trade marks.</p> <p>The Administration confirmed that the broad definition of IPRs, i.e. in the form of a non-exhaustive list of examples, in the new section 103B was in line with the policy intent of facilitating the wider use of IP arbitration.</p> <p>The Chairman said that there might be a situation where the disputing parties might seek arbitration on an IPR dispute for which the subject matter (e.g. human engineering) was against public policy or morality in Hong Kong (despite that the IPR had been registered and/or protected in other jurisdictions). The Chairman sought clarification on whether the above said dispute could be arbitrated in Hong Kong. The Administration responded that the Bill merely sought to clarify that the subject</p>	

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		<p>matter of a dispute would not be incapable of settlement by arbitration under the law of Hong Kong only because it relates to an IPR. If a subject matter was contrary to the public policy of Hong Kong for other reasons, the IPR dispute would be incapable of settlement by arbitration and enforcement of the arbitral award, if any, relating to it could be refused.</p>	
010135-010226	The Administration	<p><u>Clause 5 - section 103C</u></p>	
010226-010800	Chairman The Administration ALA	<p><u>Clause 5 - section 103D</u></p> <p>The Chairman asked whether the proposed section 103D(2) would cover liability in tort arising from infringement of rights.</p> <p>The Administration responded that the proposed section 103D(2) aimed at clarifying that "an agreement by the parties to submit to arbitration" an IPR dispute would suffice as an "arbitration agreement" within the meaning of section 19(1) of the AO. In the case of an infringement dispute, "a defined legal relationship" was considered to exist between the disputing parties under existing law.</p> <p>Referring to section 103D(6), ALA3 sought clarification on the legislative intent and justification of granting a wider power to the parties to an arbitration in limiting the remedies or reliefs to be awarded by an arbitral tribunal in deciding IPR disputes.</p> <p>The Administration advised that arbitral tribunals had extensive powers to order remedies and reliefs, for instance, the power to order specific performance. Having regard to the practice adopted in the United Kingdom ("UK"), the proposed new section</p>	

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		103D(6) was included to confer flexibility on the parties to IP arbitration to limit the remedies and reliefs to be awarded by the arbitrators.	
010800-011051	Mr Holden CHOW The Administration	<p><u>Clause 5 - section 103D</u></p> <p>Mr CHOW sought clarification on the meaning of "flexibility" as mentioned above.</p> <p>The Administration reiterated that the "flexibility" was proposed to be conferred on parties to an arbitration to limit the remedies or reliefs which may be awarded by an arbitral tribunal to those that the parties considered adequate or most appropriate to resolve their disputes. For instance, the parties could agree to restrict the remedy or relief to damages instead of an order for assignment of the IPR. Such flexibility was consistent with the contractual and consensual nature of arbitration and upholding party autonomy.</p>	
011051-012013	Mr CHEUNG Kwok-kwan The Administration Chairman Mr Holden CHOW Mr CHAN Chun-ying Chairman	<p><u>Clause 5 - section 103D</u></p> <p>Noting that the proposed section 103D(6) was drafted having regard to the practice adopted in the UK, members requested the Administration to research into relevant law and practice adopted by other common law jurisdictions, in particular Singapore, in respect of the power given to the parties to an arbitration in limiting the remedies or reliefs being awarded by an arbitral tribunal in deciding IPR disputes. The findings of the research should include whether any common law jurisdiction(s) had adopted a practice contrary to that adopted by the UK.</p>	Admin to provide the paper

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012013-012249	Chairman The Administration	<u>Clause 5 – section 103E</u>	
012249-012412	Chairman The Administration	<u>Clause 5 – section 103F</u>	
012412-012529	Mr Holden CHOW Chairman The Administration	Referring to the proposed section 103F(2), Mr CHOW asked whether the Bill would alter the power of the court to refuse the enforcement of arbitral awards on the ground of public policy (for instance, on matters relating to human engineering) or not. The Administration replied that, upon passage of the Bill, the court's power to set aside an arbitral award or refuse to enforce it on the ground of public policy (for reasons other than the mere fact that it relates to an IPR dispute) would remain unchanged.	
012529-012555	Chairman The Administration	<u>Clause 5 – section 103G</u>	
012555-012653	Chairman The Administration	<u>Clause 5 – section 103H</u>	
012653-012713	Chairman The Administration	In response to the Chairman's enquiry, the Administration confirmed that surrogacy on a commercial basis was illegal in Hong Kong.	
012713-012815	Chairman The Administration	<u>Clause 5 – section 103I</u>	
012815-013050	Chairman The Administration	<u>Clause 5 – section 103J</u>	

Time Marker	Speaker(s)	Subject(s)	Action required
013050-013201	Chairman The Administration	<u>Clauses 6 - 7</u>	
013201-013340	Chairman The Administration	<p>In respect of section 103J, the Chairman sought clarification on whether, irrespective of the outcome of an arbitration, the proprietor of a short-term patent would still be required to comply with section 129(1) of the PO (as amended by the Patents (Amendment) Ordinance 2016) before commencing enforcement proceedings against third parties who were not parties to the arbitration/arbitral proceedings. The Administration confirmed that the Chairman's understanding was correct.</p> <p>The Administration supplemented that the focus of the proposed section 103J was on the procedural matters relating to the commencement of arbitration/ arbitral proceedings and the requirements in relation to the commencement of proceedings for the enforcement of rights with regard to the same short-term patent against third parties would not be affected.</p>	
013340-013414	Chairman The Administration	<p><u>Committee Stage Amendments ("CSAs")</u></p> <p>The Administration advised that the intent of prescribing 1 October 2017 as the commencement date for the relevant amendments (except new section 103J) concerning the arbitration of IPR disputes was to allow the IP arbitration community a period of around six months after the passage of the Bill to get prepared for the changes. To achieve the above mentioned policy intent, the Administration planned to introduce CSAs in this regard.</p>	

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013414-013654	Dr Priscilla LEUNG Mei-fun The Administration	<p>Dr LEUNG said that there might be a situation where an arbitration and its related proceedings would stretch over a long period of time, say commencing in 2016 and remaining "on-going" until 2017. In this regard, Dr LEUNG asked whether the Bill would have retrospective effect. The Administration responded in the negative. In other words, the existing AO would continue to apply to the arbitration and all of its related proceedings which commenced before the proposed amendments to the AO under the Bill came into operation.</p> <p>The Administration supplemented that the proposed section 1(3) of Part 3 of Schedule 3 allows flexibility for the parties to arbitration by providing that if the parties so agree, the new Part 11A of the AO would be applicable even if the arbitration or any of its related proceedings commenced before the proposed amendments to the AO under the Bill came into operation.</p>	
013654-013745	Chairman The Administration	<u>Part 3 – Clauses 8 & 9</u>	
013745-013852	Chairman The Administration ALA	<p>Completion of clause-by-clause examination of the Bill.</p> <p>ALA confirmed that all matters raised in his letter dated 12 December 2016 (ref.: LS/B/4/16-17) had been addressed and that he had no further views on the Administration's responses.</p> <p>Discussion on the legislative timetable.</p>	

Time Marker	Speaker(s)	Subject(s)	Action required
Any other business			
013852-013934	Chairman	There being no other business, the meeting ended at 10:08 am.	

Council Business Division 4
Legislative Council Secretariat
11 April 2017