

# 立法會

## *Legislative Council*

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### **Bills Committee on Arbitration (Amendment) Bill 2016**

#### **Background brief prepared by the Legislative Council Secretariat**

#### **Purpose**

This paper gives an account of the deliberations of the Panel on Administration of Justice and Legal Services ("the Panel") on the Administration's proposals to amend the Arbitration Ordinance (Cap. 609) ("the Ordinance") to clarify the arbitrability of intellectual property ("IP") disputes.

#### **Background**

##### *Justifications for the proposed legislative amendments*

2. It has been the steadfast policy of the HKSAR Government to enhance Hong Kong's status as a leading centre for international legal and dispute resolution services and a premier hub for IP trading in the Asia-Pacific region. Arbitrability of the subject matter of a dispute is an important issue which ought to be clear right from the commencement of arbitration (or even before). At present, the Ordinance does not have any specific provision dealing with the question of arbitrability of disputes over intellectual property rights ("IPRs"). Besides, there is no authoritative judgment in Hong Kong concerning arbitrability of IPRs either. Hence, the law as it now stands is not entirely clear in this respect. In fact, different jurisdictions have adopted different approaches on this issue.

3. As part of the efforts to promote arbitration as well as to enable Hong Kong to have an edge over other jurisdictions in the Asia-Pacific region as a venue for resolving IP disputes, the Administration believes that specific statutory provisions on the issue of arbitrability of IPRs would serve to clarify the legal position and thereby facilitate and attract more parties (including parties from other jurisdictions) to resolve their IP disputes by arbitration in Hong Kong.

*Recommendations of the Two Relevant Working Groups*

4. In March 2015, the Working Group on Intellectual Property Trading (“IP Trading Working Group”) published a report (“the Report”) setting out, among others, its recommendations on promoting Hong Kong as an IP trading hub and an international IP arbitration and mediation centre. To promote the development of Hong Kong as an IP arbitration centre, the IP Trading Working Group recommended that the Government should “study the need for legislative amendments to clarify the arbitrability of IP disputes”.

5. In light of the above recommendation, a Working Group on Arbitrability of Intellectual Property Rights (“Arbitrability Working Group”) was set up by the Department of Justice (“DoJ”) to, among others, consider and advise the Government on the need (if any) and extent of legislative amendments that are necessary to address the issue of arbitrability of IPRs.<sup>1</sup> The Arbitrability Working Group gives general support to the proposal to amend the Ordinance to clarify that IP disputes are capable of settlement by arbitration.

*Details of the proposed amendments to the Ordinance*

6. Currently, section 86(2) (in Division 1, Part 10) of the Ordinance provides, among others, that enforcement of an award may be refused if (a) the award is in respect of a matter which is not capable of resolution by arbitration under the law of Hong Kong (“the arbitrability ground”), or (b) it would be contrary to public policy to enforce the award (“the public policy ground”). Both grounds are also found in Divisions 2 - 4 of Part 10.<sup>2</sup> There is concern as to whether enforcement of an arbitral award involving IPRs (particularly on issues of validity of IPRs) would be refused in Hong Kong under either (or both) of the above grounds in section 86(2) of the Ordinance. To put the matter beyond doubt, it is proposed to make it clear that disputes over IPRs, whether they arise as the main issue or an incidental issue, are capable of resolution by arbitration and it would not be contrary to public policy to enforce the ensuing award. The effect is that enforcement of an arbitral award under Part 10 of the Ordinance would not be refused in Hong Kong under either the arbitrability ground or the public policy ground merely because the award involves IPRs.

7. Article 34 of the UNCITRAL Model law adopted in section 81(1) of the Ordinance states, among others, that an arbitral award may be set aside if the court finds that the subject matter of the dispute is not capable of resolution by arbitration under the law of Hong Kong or the award is in conflict with the public policy of Hong Kong. Also with a view to putting the matter beyond doubt in relation to

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<sup>1</sup> The Arbitrability Working Group comprised representatives from the Department of Justice, Intellectual Property Department, Hong Kong International Arbitration Centre and legal practitioners with expertise in the area.

<sup>2</sup> See Sections 89(3), 95(3) and 98D(3) of the Arbitration Ordinance.

IPRs, it is proposed to similarly clarify the position in relation to an application for setting aside an arbitral award.

8. In accordance with the spirit of section 73 of the Ordinance, it is proposed that the effect of an arbitral award in respect of a dispute or matter relating to an IPR should only bind the actual parties who participate in the arbitral proceedings and not beyond.

9. The proposed amendments to the Ordinance would help (i) clarify the ambiguity (whether perceived or otherwise) in relation to the “arbitrability of IP disputes” in a case where Hong Kong has been chosen as the seat of arbitration, or Hong Kong law has been chosen as the governing law of the arbitration; (ii) make Hong Kong more appealing than other jurisdictions for conducting arbitration involving IP disputes; and (iii) demonstrate to the international community that Hong Kong is committed to developing itself as an international centre for dispute resolution involving IP matters as well as an IP trading hub in the region.

*Consultation on the Arbitration (Amendment) Bill 2016 ("the Bill")*

10. In December 2015, the DoJ issued a consultation paper to seek the views of the legal professional bodies, business associations, transactional lawyers, IP practitioners, chambers of commerce and other interested parties on the proposed amendments, as set out in the draft Bill (attached to the consultation paper), which seeks to amend the Ordinance to:

- (a) clarify that disputes over IPRs may be resolved by arbitration and that it is not contrary to the public policy of Hong Kong to enforce arbitral awards involving IPRs; and
- (b) update the list of contracting parties to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards done at New York on 10 June 1958 (“New York Convention”) in the Schedule to the Arbitration (Parties to New York Convention) Order (Cap. 609 sub. Leg. A).

11. According to the Administration, responses from 17 consultees were received at the end of the consultation. None of the consultees raised in-principle objection to the introduction of legislative amendments to clarify that IPR disputes are capable of settlement by arbitration and that it is not contrary to the public policy of Hong Kong to enforce the ensuing award. Some fine comments on the Bill were raised and they had been carefully considered by the Administration and taken on board where appropriate.

12. On 22 August 2016, the Administration consulted the Law Society of Hong Kong, the Hong Kong Bar Association ("the Bar Association"), the Hong Kong Institute of Trade Mark Practitioners and a consultee from the IP sector on the proposed sections 103H, 103I and 103J, which were added subsequent to the consultation conducted in December 2015. None of the above consultees raised in-principle objection to these new provisions.

### **Deliberations of the Panel**

13. The Administration consulted the views of the Panel at its meeting held on 25 January 2016 on aforesaid proposals to amend the Ordinance. Panel members generally supported the introduction of the Bill into the Council. The deliberations are summarized in the following paragraphs.

14. The Bar Association had provided DoJ with its suggestion of adding to the proposed amendment an inclusive but non-exhaustive list of examples of IPRs for the purpose of the Ordinance, so as to define clearly the subject matters under IPRs and provide greater assurance to the transactional lawyers, IP practitioners, litigation lawyers and other related parties that these subject matters under IPRs would be capable of resolution by arbitration. This list would also be conducive to publicizing arbitration in Hong Kong as a viable alternative option to litigation for IP dispute resolution. The Administration advised that the proposals made by the Bar Association would be forwarded to the Arbitrability Working Group for consideration.

15. Responding to a member's enquiry on whether Hong Kong's current arbitration legislation had lagged far behind those in other similar jurisdictions, the Administration responded that the arbitration legislation had been updated in 2013 and 2015 to keep pace with the arbitration development in Hong Kong. As there was no specific legislative provision addressing the arbitrability of disputes involving IPRs in Hong Kong, the proposed amendments would put beyond doubt that those disputes, in particular disputes relating to the validity of registered IPRs, would be capable of resolution by arbitration in Hong Kong. The Administration further explained that as different approaches had been adopted by different jurisdictions as to the arbitrability of IP disputes, there was no uniform international practice in dealing with that issue. Thus, one could not say that Hong Kong's current arbitration legislation was lagging behind those in other jurisdictions in that respect. However, the proposed amendments to the Ordinance would help Hong Kong develop itself as an international centre for alternative dispute resolution involving IP matters as well as an IP trading hub in the region.

16. The member of the Arbitrability Working Group said that in a case where Hong Kong had been chosen as the seat of arbitration, the proposed amendments would facilitate the application of Hong Kong law to govern the arbitration clauses

and procedures. The proposed amendments would also be helpful in putting beyond doubt that the enforcement of an arbitral award involving disputes over IPRs in Hong Kong would not be challenged solely on the grounds of the arbitrability of IP disputes or the conflict of public policy in this regard under the Ordinance.

17. A member enquired about the measures to be taken by the Administration to facilitate cost and time savings in arbitration of IP disputes and asked whether it was necessary to have consent of both parties before going to arbitration where the parties did not have any arbitration agreement before the dispute arose, for example, in infringement claims. In response to the enquiry regarding the arbitration of IP disputes with no pre-dispute arbitration agreements, such as infringement claims, the Administration advised that in order to protect party autonomy, the parties involved in such disputes must consent to arbitration if the disputes were to be resolved by arbitration.

18. A member asked whether a third party from another jurisdiction could challenge an arbitral award made in Hong Kong involving disputes over IPRs granted by that jurisdiction. The Administration pointed out that an arbitral award in respect of a dispute or matter relating to an IPR only bound the actual parties who participated in the arbitral proceedings and not a third party.

19. As regards the arbitration on disputes arising from international licensing agreements which involved IPRs granted by a number of state agencies or government authorities, the member of the Arbitrability Working Group explained that while the New York Convention, which applied to Hong Kong, provided for mutual recognition and enforcement of the awards made in arbitration proceedings conducted in the contracting states, the enforceability of a Hong Kong arbitral award in a contracting state would be determined by the law of that contracting state.

#### Relevant papers

20. A list of the relevant papers available on the website of the Legislative Council is in the **Appendix**.

## Appendix

### Bills Committee on Arbitration (Amendment) Bill 2016

#### List of relevant papers

Meeting	Date of meeting	Paper
Panel on Administration of Justice and Legal Services	25 January 2016 (Item IV)	Administration's paper entitled "Proposed Amendments to the Arbitration Ordinance (Cap. 609)" LC Paper No. <u>CB(4)485/15-16(05)</u>  Minutes of meeting LC Paper No. <u>CB(4)1268/15-16</u>

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