立法會
Legislative Council

LC Paper No. CB(4)1160/16-17

Ref : CB4/BC/1/16

Report of the
Bills Committee on Arbitration (Amendment) Bill 2016

Purpose

This paper reports on the deliberations of the Bills Committee on Arbitration (Amendment) Bill 2016 ("Bill").

Background

2. It has been the policy of the Administration to enhance Hong Kong's status as a leading centre for international legal and dispute resolution services and a premier hub for intellectual property ("IP") trading in the Asia-Pacific region. Both the Department of Justice ("DoJ") and the Working Group on IP Trading have identified IP arbitration as one of the areas in which Hong Kong should develop and promote[1].

3. Arbitrability of the subject matter of a dispute is an important issue which ought to be clear before the commencement of arbitration. However, the Arbitration Ordinance (Cap. 609) ("AO") does not have any specific provision dealing with the question of arbitrability of disputes over intellectual property right ("IPR"). Besides, there is no authoritative judgment in Hong Kong concerning the arbitrability of disputes over IPR ("IPR disputes") either. Hence, the law as it now stands is not entirely

[1] See Chapter 8 of the Report published by the Working Group on IP Trading (chaired by the Secretary for Commerce and Economic Development) in March 2015 (available at http://www.cedb.gov.hk/citb/doc/en/Councils_Boards_Committees/Final_Report_Eng.pdf) and see the Secretary for Justice's keynote speech at the 2nd ICC Asia Conference on International Arbitration on 29 June 2016 (available at http://www.doj.gov.hk/eng/public/pdf/2016/sj20160629e.pdf)

clear in this respect.

4. As part of the efforts to promote Hong Kong as a leading international arbitration centre in the Asia-Pacific region and to enable Hong Kong to have an edge over other jurisdictions in the Asia-Pacific region as a venue for settling IPR disputes[2], the Administration believes that specific statutory provisions on the issue of arbitrability of IPR disputes would serve to clarify the legal position and would attract and facilitate more parties (including parties from other jurisdictions) to settle their IPR disputes by arbitration in Hong Kong.

5. Currently, section 86(2) (in Division 1, Part 10) of the AO provides, among other things, that enforcement of an arbitral award may be refused if, *inter alia*, (a) the award is in respect of a matter which is not capable of settlement by arbitration under the laws of Hong Kong ("arbitrability ground"), or (b) it would be contrary to public policy to enforce the award ("public policy ground"). Both grounds are also found in Divisions 2 - 4 of Part 10 of the AO concerning the enforcement of awards made outside Hong Kong[3]. There is concern as to whether enforcement of an arbitral award involving IPRs (particularly on issues of validity of IPR) would be refused in Hong Kong under either or both of the above two grounds.

6. To put the matter beyond doubt, it is proposed by the Administration to make it clear that IPR disputes, whether they arise as the main issue or an incidental issue, are capable of settlement by arbitration, and that it is not contrary to the public policy of Hong Kong to enforce the ensuing award. The effect is that enforcement of an arbitral award under Part 10 of the AO would not be refused in Hong Kong under either the arbitrability ground or the public policy ground merely because

[2] Different approaches have been adopted by different jurisdictions as to the arbitrability of IPR disputes, especially on issues relating to the validity of registered IPRs (such as patents, trade marks and registered designs) granted by state agencies or government authorities. In the United States and Belgium, there are statutory provisions which expressly allow the arbitration of disputes relating to the validity or infringement of patents. In Switzerland, pursuant to a ruling by the Swiss Federal Office of Intellectual Property in 1975, arbitral tribunals are empowered to decide all issues of IPRs, including the validity of patents, trade marks and designs. By contrast, the law in some jurisdictions appears to prohibit arbitration of the validity of IPRs. For example, under the patent law in Mainland China, the issue of patent validity constitutes an administrative matter that cannot be submitted to arbitration. In many jurisdictions, the legal position is unclear as there is no legislative provision or court decision addressing this issue.

[3] See sections 89(3) (for enforcement of Convention awards as defined by the AO), 95(3) (for enforcement of Mainland awards as defined by the AO) and 98D(3) (for enforcement of Macao awards as defined by the AO) of the AO.

the award concerns IPR disputes.

7. Article 34 of the UNCITRAL Model Law, given effect by section 81(1) of the AO, states, among other things, that an arbitral award may be set aside if the court finds that the subject matter of a dispute is not capable of settlement by arbitration under the laws 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 IPRs, it is proposed by the Administration to similarly clarify the legal position in relation to an application for setting aside an arbitral award.

The Bill

8. The Bill was published in the Gazette on 2 December 2016 and introduced into the Legislative Council on 14 December 2016. The Bill seeks to amend the AO to provide that IPR disputes 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 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. 609A) ("New York Convention Order").

9. The Bill proposes to add to the AO a new Part 11A comprising 10 new sections (sections 103A to 103J). These provisions are summarized in the following paragraphs.

10. Under the new section 103C of the AO, an IPR dispute includes a dispute over the following matters:

(a) the enforceability, infringement, subsistence, validity, ownership, scope, duration or any other aspect of an IPR;

(b) a transaction in respect of an IPR; and

(c) any compensation payable for an IPR.

The term "IPR" is non-exhaustively defined in the new section 103B(1) and includes some common examples of IPRs such as a patent, trade mark, design and copyright.

11. The new section 103D(1) and (3) provides that an IPR dispute is capable of settlement by arbitration as between the parties to the IPR dispute, whether as the main issue or an incidental issue in the arbitration.

The new section 103D(4) further provides that an IPR dispute is not incapable of settlement by arbitration only because a law of Hong Kong or elsewhere gives jurisdiction to decide the IPR dispute to a specified entity (such as a court or a tribunal) and does not mention possible settlement of the IPR dispute by arbitration. The new section 103D(6) confers flexibility on the parties to an IPR dispute to limit the remedies or relief that could be awarded by the relevant arbitral tribunal.

12. The new section 103E(2) clarifies that the fact that an entity is a third party licensee[4] in respect of an IPR does not of itself make the entity a person claiming through or under a party to the arbitral proceedings involving such IPR for the purpose of section 73(1)(b) of the AO. In other words, third party licensees do not directly benefit from, nor are they directly subject to the liabilities of, an arbitral award involving an IPR unless they are joined as parties to the arbitration. Meanwhile, this does not affect any right or liability between a third party licensee and a party to the arbitral proceedings arising in contract or by operation of law.

13. The new sections 103F and 103G clarify to the effect that an arbitral award may not be set aside under section 81 of the AO, nor may the enforcement of an arbitral award be refused under Part 10 of the AO, only because the award concerns an IPR dispute.

14. The new section 103H provides that section 73(1) of the AO, which confines the finality and binding effect of an arbitral award to the parties to the arbitration and any person claiming through or under any of the parties to the arbitration, applies in relation to a judgment entered in terms of an arbitral award (including a declaratory award) deciding an IPR dispute for the purpose of enforcing the arbitral award under Part 10 of the AO[5].

15. The new section 103I provides that section 101(2) of the Patents Ordinance (Cap. 514) ("PO") does not prevent a party from putting the validity of a patent in issue in arbitral proceedings.

16. The new section 103J provides for arbitral proceedings for the

---

[4] The new section 103E(4) provides that "third party licensee", in relation to an IPR in dispute in arbitral proceedings, means an entity that is a licensee (whether or not an exclusive licensee) of the IPR under a licence granted by a party to the arbitral proceedings; but not a party to the arbitral proceedings.

[5] Under sections 84, 87, 92 and 98A of Part 10 of the AO, the Court of First Instance may enter judgment in terms of an arbitral award and the award will be enforceable in the same manner as a judgment of the Court of First Instance that has the same effect.

enforcement of rights conferred under the PO in relation to short-term patents.

17. Except the new sections 103E, 103F, 103I and 103J, all the new provisions in the new Part 11A apply to an arbitration which takes place outside Hong Kong (clause 3).

18. Clauses 6 and 7 provide for the necessary savings and transitional arrangements by amending section 111 of the AO and adding a new Part 3 of Schedule 3 to the AO.

Updating contracting parties

19. Clauses 8 and 9 seek to amend the Schedule to the Arbitration (Parties to New York Convention) Order (Cap. 609A) to update the list of contracting parties to the New York Convention by replacing "Faeroe" Islands in the Schedule to the New York Convention Order with "Faroe" Islands to tally with the spelling used in other statutory provisions, and by adding two new state parties to the New York Convention since the enactment of the Arbitration (Amendment) Ordinance 2015, namely "Andorra" and "Comoros"[6].

Commencement

20. Pursuant to clause 1, the Bill, if passed, would come into operation in three phases. The provisions in relation to the arbitration of IPR disputes (i.e. clauses 2 to 7), except the new section 103J (concerning arbitral proceedings for the enforcement of rights conferred under the PO in relation to short-term patents), would come into operation on 1 October 2017[7]. The new section 103J would come into operation on the day on which section 123[8] of the Patents (Amendment) Ordinance 2016 (Ord. No. 17 of 2016) comes into operation. The remaining provisions, including the clause 1 (short title and commencement), and clauses 8 and 9 concerning the amendments to the Schedule to the New York Convention Order would come into operation on the day on which the enacted Ordinance is published in the Gazette.

---

[6] The Administration also proposes to move Committee stage amendments to the Bill to add a new party to the New York Convention, namely Angola. Please refer to paragraph 66 below of this report.

[7] The Administration proposes to move Committee stage amendments to the Bill regarding the date of 1 October 2017. Please refer to paragraph 65 below of this report.

[8] Section 123 of Ord. No. 17 of 2016 amends section 129 of the PO concerning court proceedings for the enforcement of rights in relation to short-term patents.

The Bills Committee

21. At the House Committee meeting on 16 December 2016, members agreed to form a Bills Committee to study the Bill. The membership list of the Bills Committee is in **Appendix**. Under the chairmanship of Hon Martin LIAO Cheung-kong, the Bills Committee held two meetings in January and February 2017 to deliberate on the details of the Bill with the Administration.

Deliberations of the Bills Committee

22. The Bills Committee in general supports the Bill. During the course of scrutiny, the Bills Committee has focused on several areas, including the definition and arbitrability of IPRs (paragraphs 23 – 25), enforcement and registration of arbitral awards (paragraphs 26 –50), adequacy of the Bill in safeguarding competition (paragraphs 51 – 59) and time and cost saved in using arbitration instead of litigation (paragraphs 60 – 63). The deliberations of the Bills Committee are summarized in the ensuing paragraphs.

Definition and arbitrability of IPRs

23. The Legal Adviser to the Bills Committee notes that the proposed section 103B defines the term IPR referred to in the new Part 11A by an non-exclusive list of examples of IPRs. Some of the terms in the non-exclusive list, such as "patent"; "trade mark"; "copyright", and "known-how" etc., are specifically defined in different Ordinances in Hong Kong. He has thus sought clarification from the Administration regarding the legislative intent and the justification of adopting a non-exclusive list of examples of IPRs. He has also sought information regarding the terms with specific definitions in other Ordinances, and asked if such specific definitions would be applicable to the identical terms referred to in the non-exclusive list in section 103B.

24. The Administration has advised that for the purpose of providing more guidance to users of IP arbitration, a non-exhaustive list of some common examples of IPRs is provided under the proposed section 103B(1). This list is added to the Bill in light of the suggestions from some stakeholders[9] in the consultation exercise. The Administration has also taken into account the broad definition of "intellectual property" under the Agreement on Trade-Related Aspects of Intellectual Property

[9] The Hong Kong Bar Association, the Hong Kong Institute of Trade Mark Practitioners and the Construction Industry Council.

Rights ("TRIPS") contained in Annex 1C to the Marrakesh Agreement Establishing the World Trade Organization.

25. The Bills Committee further notes that the Administration anticipates that the disputes that will be arbitrated in Hong Kong will cover not only IPRs that are registered or subsisting in Hong Kong but also those that are registered or subsisting in other jurisdictions. Given that IPRs in other jurisdictions may be referred to by different names or protected in a different way, and since IP is a developing area, the Administration has defined IPRs by referring to a non-exhaustive list of examples so as to provide flexibility in the definition to accommodate new types of IPRs which may arise in future. The Administration has advised that the broad definition of "intellectual property rights" in the new section 103B is in line with the policy intent of facilitating the wider use of IP arbitration in Hong Kong. As the characteristics of the specific types of IPRs may be different in other jurisdictions, the terms set out in paragraphs (a) to (j) of the proposed section 103B(1) are used in a generic sense and their meaning is not restricted by the respective definitions contained in other Ordinances in Hong Kong[10].

Enforcement and registration of arbitral awards

Registration and binding effect of arbitral awards

26. A member, Dr Hon Junius HO Kwan-yiu, has asked whether, after passage of the Bill, the parties would be required to register their arbitral awards under the relevant registry of the Government.

27. The Administration has advised in the negative and said that arbitral awards would only bind the parties to the arbitration, but not any other third parties who did not participate in the proceedings, and that owing to the *inter partes* effect of an arbitral award and the confidential nature of arbitration, there would not be any requirement as to the registration of arbitral awards.

28. Another member, Hon Alvin YEUNG has expressed concern that third parties would have no knowledge of the arbitral awards in relation to disputes over the validity of IPRs, and has asked whether there would

[10] In this regard, the Term "confidential information" used in section 49A of the Dangerous drugs Ordinance (Cap. 134) and section 123 of the Competition Ordinance (Cap. 619) respectively does not relate to IP. In the context of IP, it is commonly understood that "confidential information" has the meaning referred to in Article 39.2 of the TRIPS, contained in Annex 1C to the Marrakesh Agreement Establishing the World Trade Organization.

be any measures to safeguard public interests, particularly for cases involving secondary infringement of IPRs.

29. The Administration has stressed that the general principle of the current legal regime of arbitration was that the binding effect of an arbitral award was only confined to the parties to arbitration since the rationale behind arbitration was to settle disputes between the parties.

30. Besides, the Bills Committee has taken note that arbitration was just one of the methods for resolving disputes and that arbitration might be a favourable choice for parties who were disputing on large-scale IP projects involving several jurisdictions, say, technology transfer, joint research and development, or cross licensing. The Administration has explained that among other advantages, arbitration could provide the parties with a single platform to resolve the disputed matters and the parties would also have the freedom to appoint their own arbitrators with the relevant expertise. The parties could also make use of the mechanism under the New York Convention to enforce the arbitral awards in over 150 countries around the world that are parties to the New York Convention.

31. Members, including Hon James TO Kun-sun and Dr Hon Junius HO Kwan-yiu, suggest that parties to IPR disputes should be required to register their arbitral awards, if any, with the Intellectual Property Department ("IPD") to safeguard public interests.

32. Another member, Dr Hon Priscilla LEUNG Mei-fun suggests that the Administration should consider whether registration should be required for arbitral awards in relation to disputes over the validity of patents.

33. Whilst acknowledging the confidentiality of arbitration agreement, the Chairman also has concern about the lack of registration of IPR arbitral awards on commercial operations, especially the rights in relation to technology transfer, licensing of IPRs and compulsory licensing of patents. Making reference to the land register, the Chairman and Hon Alvin YEUNG suggest that the Administration should consider providing the arbitration parties with the choice of registering their arbitral award or make remarks under the register at IPD if they consent to do so, thereby facilitating the parties to IPR disputes to give notice to the world at large about their interests in the IPR or the outcome of the arbitration.

34. The Administration has explained that, basically, only documents which have effect towards all (*erga omnes* effect), such as court orders

and decisions of the Registrar, would be recorded on the registers maintained by IPD and there were specific statutory provisions on the type of matters or documents that should be so entered on the registers. The Registrar has no power or authority to record other documents at the request of the parties. In respect of the suggestion of allowing the arbitration parties a choice to register or add a remark on the register, the Administration has advised that arbitral decisions were made based on the actual documents and evidence submitted by the parties to the proceedings and given that the arbitral awards have effect only as between the arbitration parties, they would be of limited relevance to third parties.

35. The Administration has supplemented that under the current legislative framework, parties to the arbitration, upon mutual consent, could still disclose information about the arbitration, including the arbitral awards, to third parties (say, publishing information on their websites) and/or disclose relevant information to any third party upon enquiry.

36. The Administration has further emphasized that confidentiality is, whether locally or internationally, one of the common features of arbitration and it is also one of the key reasons why parties often prefer to use arbitration to resolve their disputes (as opposed to court litigation). Confidentiality has special importance in Hong Kong's arbitration regime in that Hong Kong has seen fit to incorporate an express provision on confidentiality in its arbitration legislations. Any erosion of confidentiality may prejudice Hong Kong's position as a leading international arbitration centre.

37. The Administration has also conducted research on the practice of 30 jurisdictions concerning arbitrability of IPR disputes and the disclosure or non-disclosure of arbitral awards. It was noted that the general practice of those jurisdictions in which IPR disputes are arbitrated does not require the mandatory disclosure or recordal of IPR arbitral awards with *inter partes* effect. In this regard, IPR arbitral awards are treated similarly as other arbitral awards under their arbitration regimes. The confidential nature of arbitration and the requirement for consent of the arbitration parties is often cited as the rationale for this policy.

38. Besides, parties to IP transactions are generally business players who have knowledge of the market and they can be expected to investigate and conduct due diligence before entering into commercial transactions with the owner of an IPR. They may also seek to protect their interest by contractual arrangements. Importantly, arbitral awards, which have *inter partes* effect, do not affect the rights of third parties. They remain free to pursue their rights against a party to the arbitration

e.g. the IP owner in court proceedings or before the Registrar of the relevant IPR. The proposed IP arbitration regime is also "competition neutral" and does not affect the rights of third parties, competition authorities or the courts under the competition laws of Hong Kong (see further paragraphs 51 - 59 of the report below).

39. For the above reasons, the Administration considers that it is not appropriate to require mandatory disclosure of IPR arbitral awards or their recordal with IPR registries in Hong Kong.

Power of the arbitration parties to limit the arbitrator's power to award final remedies and relief

40. Referring to the proposed section 103D(6), Dr Hon Junius HO Kwan-yiu and the Legal Advisor to the Bills Committee have sought clarification on the legislative intent and/or justification of granting a wider power to the parties to an arbitration in limiting the remedies or relief to be awarded by an arbitral tribunal in deciding IPR disputes. The Administration has explained that the proposed section 103D(6) under the Bill was to clarify that the power given to an arbitral tribunal under section 70 of AO to award any remedy or relief in deciding an IPR dispute is subject to any contrary agreement between the parties to the IPR dispute.

41. The Administration has also advised that under section 70 of the AO, arbitral tribunals had extensive powers to order remedies and relief, for instance, the power to order specific performance of any contract (other than a contract relating to land or any interest in land). Having regard to the practice adopted in the United Kingdom ("UK"), the proposed new section 103D(6) was included to confer flexibility on the parties to IP arbitration to limit the remedies and relief to be awarded by the arbitrators. The Administration has reiterated that the "flexibility" was proposed to be conferred on parties to an arbitration to limit the remedies or relief which may be awarded by an arbitral tribunal to those that were considered adequate or most appropriate by the parties 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.

42. The Bills Committee notes that the proposed 103D(6) was drafted in line with the practice adopted in the UK. Members, including Hon CHEUNG Kwok-kwan, Hon Holden CHOW Ho-ding, Hon CHAN Chun-ying and the Chairman have 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 relief being awarded by an arbitral tribunal in deciding IPR disputes, in particular whether any common law jurisdiction(s) has adopted a practice contrary to that adopted by the UK.

43. In response to members' request, the Administration has conducted research into the practice of a few jurisdictions. The Administration has advised that arbitration is a consensual (contract-based) process for the resolution of disputes. For this reason, upholding party autonomy is a fundamental feature of arbitration. As noted by Gary Born, the learned author of *International Commercial Arbitration* and other arbitration experts, the powers of an international arbitral tribunal to grant remedies are defined in the first instance by the parties' arbitration agreement, and in principle the parties should be free to confer authority on the arbitrators to grant any form of civil remedy calculated to resolve the parties' dispute.

44. The Administration has further explained that Gary Born notes that most arbitration legislations are silent on the arbitrators' remedial powers, generally treating it as a matter for the parties' agreement. Some of the jurisdictions surveyed are found to have included express provisions in their arbitration legislations to provide for parties to agree upon (including limiting) the arbitral tribunal's powers as regards remedies. Such jurisdictions include the UK (England and Wales and Northern Ireland), the UK (Scotland) and New Zealand. The arbitration legislations of other jurisdictions surveyed are silent on the arbitrator's powers as regards remedies, or only refer to the remedy of specific performance. Such jurisdictions include Australia (New South Wales and Victoria), Canada (British Columbia and Ontario), and South Africa.

45. The Bills Committee notes that in Singapore, domestic arbitration is governed by the Arbitration Act (Cap. 10) while international arbitration is governed by the International Arbitration Act (Cap. 143A). Similar to section 48(1) of the English Arbitration Act 1996, section 34(1) of the Arbitration Act of Singapore provides that the parties may agree on the powers exercisable by the arbitral tribunal as regards remedies. Section 34(2) further provides that unless otherwise agreed by the parties, the arbitral tribunal may award any remedy or relief that could have been ordered by the Court if the dispute had been the subject of civil proceedings in that Court. Thus, parties to domestic arbitration have power to limit the remedies or relief that could be awarded by an arbitral tribunal by agreement.

46. It is noted that for international arbitrations conducted in Singapore, section 12(5)(a) of the International Arbitration Act provides that an arbitral tribunal, in deciding the dispute that is the subject of the arbitral proceedings, may award any remedy or relief that could have been ordered by the High Court if the dispute had been the subject of civil proceedings in that Court. Although there is no express reference to the parties' autonomy to limit the arbitral tribunal's power to award remedies and relief, Gary Born takes the view that section 12(5)(a) of the International Arbitration Act should be regarded as non-mandatory (i.e. the arbitral tribunal's powers to grant remedies may be subject to limitation or extension by the parties).

47. The Administration has advised that based on its research, while the arbitration legislations may not always include an express provision on the arbitral tribunal's powers as regards remedies, the general position seems to be that the parties have autonomy to agree on or limit the arbitral tribunal's remedial powers. Furthermore, the UK and New Zealand have general provisions on the arbitral tribunal's remedial powers, subject to the parties' contrary agreement (except the power to award payment and damages in the case of Scotland). Australia (New South Wales and Victoria), Canada (British Columbia) and South Africa have express provisions on the arbitrator's power as regards specific performance, subject to the parties' contrary agreement. In the case of Singapore, there is commentary that the express provision on arbitral tribunal's powers is non-mandatory and can thus be modified by the parties.

48. On this basis, the Administration is of the view that it would be conducive to the policy objective of facilitating and promoting the use of Hong Kong as the seat of IP arbitration to introduce section 103D(6) to clarify that the arbitral tribunal's power to award remedies and relief under section 70(1) of the AO in deciding an IPR dispute, is subject to contrary agreement of the parties. At the same time, the Administration will continue to keep the position under review and would be prepared to consider extending the amendments to other types of arbitration should there be such demand from the arbitration community in future.

Criminal liability arising from IPR disputes

49. Dr Hon YIU Chung-yim has sought clarification as to the criminal liability arising from IPR disputes. In a hypothetical situation where a person had obtained Government funding for scientific research and was granted a patent which was subsequently held by an arbitral tribunal to

have infringed the IPR of an overseas IPR owner, Dr Hon YIU Chung-yim asked whether that person would be liable to any criminal offence, such as fraud, in relation to the government funding for scientific research in respect of that patent.

50. The Administration has explained that, while there was no statutory elaboration on what subject matter of a dispute was not capable of settlement by arbitration, it was understood, based on case law and legal writings, that the power of an arbitral tribunal was confined to resolving civil disputes between the parties to the arbitration (but not criminal matters) and the legal effect of arbitral awards would be binding on the parties to the arbitration only. As to the hypothetical situation mentioned by Dr Hon YIU Chung-yim, the Administration has advised that in general the requirements as to the submission of information and the liability arising from failure of disclosure would be subject to the terms and conditions set by the authority concerned.

Adequacy of the Bill in safeguarding competition

51. Members of the Bills Committee, including Hon Dennis KWOK Wing-hang and Dr Hon Junius HO Kwan-yiu, have raised concerns about the adequacy of the Bill in safeguarding competition in view of the confidentiality of the arbitration agreement and arbitral award and have requested the Administration to seek the views of the Hong Kong Competition Commission ("Competition Commission").

52. The Administration has explained its view that the Bill would not give rise to any real competition law concerns nor would it affect the investigative and enforcement powers of the Competition Commission. The Administration reiterates that 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 AO and the CO, there are sufficient safeguards to address competition concerns (if any) arising in the context of arbitration.

53. The Administration has 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. The Administration has also reported that it has sought the written views of the Competition Commission and that the Competition Commission shares the

Government's view that the Bill and its implications for the arbitration process is "competition neutral"; that the Competition Commission considers that the confidentiality of arbitration is unlikely by itself to be inconsistent with the CO and in particular, the Bill is consistent with the CO from an enforcement perspective; and that the Competition Commission considers from an enforcement perspective that the arbitration of most IPR issues is unlikely to cause any competition concerns.

54. As regards the Competition Commission's concern that where an 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 has explained that arbitration is a private means to resolve private disputes between the parties, and an arbitral award has *inter partes* 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 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 IPR Registrar. The Administration did not consider that such asymmetry of information and costs would cause systemic unfairness to third parties.

55. The Administration has further clarified that differential treatment of licensees and asymmetry of information exist as part of commercial reality. In line with the 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 require it to confer same treatment on all business partners/licensees. Moreover, licensees of IPRs or parties to transactions involving IPRs may also seek to protect their interest by contractual arrangements as well as conducting investigations or due diligence before entering into transactions with owners of IPRs.

56. The Bills Committee notes the stance of the Administration that competition issues, if any, may be considered in the context of arbitration as follows:

(a) In the course of arbitration, the arbitrator may take competition law into consideration as part of the substantive law to be applied by him 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 which provides that the Court may, on application of any party to arbitral proceedings, decide any question of law arising in the course of the arbitral proceedings;

(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 to 7 of Schedule 2 to the AO; and

(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.

57. Besides, confidential documents relating to arbitral proceedings (including confidential arbitral awards) are not immune from the investigative powers of the Competition Commission. Nor are they immune from discovery in court proceedings provided that they are relevant to the issue before the court.

58. Hon Holden CHOW Ho-ding has asked if it is 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 arbitration might be addressed. The Administration has stated that if there is any agreement in breach of the CO, the Commission is empowered under the CO to investigate into the matter and bring enforcement action upon receipt of complaints relevant to anti-competition or contravention of the CO.

59. The Administration further confirms that the Bill seeks to amend the AO to clarify the arbitrability of IPR disputes for the purposes of facilitating the conduct of IP arbitration and the enforcement of IPR awards. 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. It would be prepared

to include these points in the speech to move the resumption of the Second Reading Debate of the Bill to clarify matters.

Time and cost saved in using arbitration instead of litigation

60. The Bills Committee notes that one of the legislative intents of the Bill is 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. In this connection, Hon CHAN Chun-ying and Dr Hon YIU Chung-yim have expressed concern about the adequacy of qualified IPR arbitrators in Hong Kong and whether any information/support centre will be provided for the general public to seek assistance. Hon CHAN Chun-ying also suggests that efforts should be dedicated to promote "cost effectiveness" as the competitive edge of Hong Kong in the provision of arbitration services since commercial users would be most concerned about savings in cost and enhancement in efficiency in opting to resolve their IPR disputes by arbitration. Hon CHAN Chun-ying has sought information on the amount of time and cost saved in using arbitration instead of litigation to resolve IPR disputes.

61. The Administration has advised that it has been committed to promoting arbitration services of Hong Kong in the commercial sector and to the general public locally and internationally. As regards resources for the general public and small players, the Administration has since introduced the Arbitration and Mediation Legislation (Third Party Funding) (Amendment) Bill 2016 to the Legislative Council to facilitate third party funding for arbitration and mediation. The Administration has further explained that useful information like the arbitration rules of the Hong Kong International Arbitration Centre ("HKIAC") was available on its website. The availability of documents-only arbitration may also help the parties reduce the cost of arbitration. As to the availability of qualified IPR arbitrators, the Administration has explained that the HKIAC has established a Panel of Arbitrators for Intellectual Property Disputes. Currently, there were over 40 arbitrators with experience in resolving IPR disputes from over 10 jurisdictions on the said Panel of Arbitrators.

62. The Administration has further advised that IPD has joined force with DoJ in organizing workshops to promote the settlement of IPR disputes by arbitration/mediation. IPD has also been organizing training courses for small and medium enterprises to promote their awareness of IP protection and enhance their capacity in managing their IPRs. Upon passage of the Bill, workshops and seminars on topics related to IP arbitration would also be organized.

63. On savings in time and cost, the Administration has explained that according to the results of a survey conducted by World Intellectual Property Organization ("WIPO") in 2013 with regard to resolving disputes on technology transactions[11], the average time spent in resolving the disputes by court proceedings was 3 to 3.5 years while that for resolving disputes by arbitration was on average about (slightly more than) one year. As regards the experience of the WIPO Arbitration and Mediation Center, arbitration cases under the WIPO Expedited Arbitration Rules and the WIPO Arbitration Rules took on average around 7 months and 23 months respectively. In terms of legal cost, the average cost of litigation was US$475,000 to slightly over US$850,000 while the cost for arbitration (including the cost for arbitrators) was slightly over US$400,000, whereas the average cost of WIPO expedited arbitration and WIPO arbitration was only around US$48,000 and US$165,000 respectively.

Committee stage amendments

64. The Bills Committee notes that the Administration will move Committee stage amendments ("CSAs") to the Bill.

65. The Administration has advised the Bills Committee that by prescribing 1 October 2017 as the commencement date for Part 2 of the Amendment Ordinance (except section 5 in so far as it relates to the new section 103J) concerning the arbitration of IPR disputes, the Government's policy intention is to allow the IP arbitration community a period of around six months after passage of the Bill to prepare for commencement of the legislative amendments. To better give effect to this policy intention, the Government proposes to introduce CSAs to clause 1(3) to the effect that the new Part 11A of the AO (Arbitrations Relating to Intellectual Property Rights) (except new section 103J) will commence on the first day of the seventh month immediately following the month in which the Amendment Ordinance is published in the Gazette. Due to the fact that the date of 1 October 2017 is also stated in new section 1(1) and (4) of Part 3 of Schedule 3 (clause 7 of the Bill), the Administration therefore proposes to introduce CSAs to clause 7 of the Bill to make corresponding changes to new section 1(1) and (4).

---

[11] Results of the WIPO Arbitration and Mediation Center International Survey on Dispute Resolution in Technology Transactions March 2013, available at http://www.wipo.int/amc/en/center/survey/results.html

66. During the course of examination of the Bill in early 2017, the Administration has come to note that Angola has recently acceded to the New York Convention, and the New York Convention will enter into force for Angola from 4 June 2017. Accordingly, the Administration intends to propose a CSA to amend clause 9(2) of the Bill in order to add Angola to the Schedule to the New York Convention Order.

67. The Bills Committee has examined the Administration's proposed CSAs and raised no objection thereto. The Bills Committee will not propose any CSAs to the Bill.

Resumption of Second Reading debate

68. The Bills Committee has no objection to the resumption of the Second Reading debate on the Bill at the Council meeting of 14 June 2017.

Consultation with the House Committee

69. The Bills Committee reported its deliberations to the House Committee on 19 May 2017.

Council Business Division 4
Legislative Council Secretariat
5 June 2017

Appendix

Bills Committee on Arbitration (Amendment) Bill 2016

Membership List

Chairman	Hon Martin LIAO Cheung-kong, SBS, JP
Members	Hon James TO Kun-sun 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 Alvin YEUNG Hon Jimmy NG Wing-ka, JP (Up to 19 January 2017) Dr Hon Junius HO Kwan-yiu, JP Hon Holden CHOW Ho-ding Hon YUNG Hoi-yan Hon CHAN Chun-ying Hon CHEUNG Kwok-kwan, JP Dr Hon YIU Chung-yim
	(Total : 13 Members)
Clerk	Ms Mary SO (up to 14 February 2017) Ms Sophie LAU (since 15 February 2017)
Legal adviser	Mr Alvin CHUI