



## **II. REPORT**

The date of First Reading of the Bill is 14 December 2016. Members may refer to the LegCo Brief (File Ref.: L/M(5) To LP 19/00/9C) issued by the Department of Justice on 30 November 2016 for further details.

### **Object of the Bill**

2. The Bill seeks to amend the Arbitration Ordinance (Cap. 609) to:
  - (a) provide that disputes over intellectual property rights ("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 by adding a new Part 11A to Cap. 609; and
  - (b) update the list of contracting parties to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 ("New York Convention").

### **Background**

3. Under Cap. 609, enforcement of an arbitral award may be refused if (a) the award is in respect of a matter which is not capable of settlement by arbitration under the law of Hong Kong or (b) it would be contrary to public policy to enforce the award.<sup>1</sup> Currently, Cap. 609 does not have any specific provision dealing with the question of arbitrability of disputes over IPRs or the enforcement of an arbitral award on IPRs.

4. According to paragraphs 3 and 4 of the LegCo Brief, in order to attract and facilitate more parties to settle their IPR disputes by arbitration in Hong Kong, specific statutory provisions are needed to clarify the legal position on the issues of arbitrability of IPR disputes and enforceability of arbitral awards involving IPRs.

### **Provisions of the Bill**

#### Arbitration on IPRs disputes

5. The Bill proposes to add to Cap. 609 a new Part 11A comprising 10 new sections (sections 103A to 103J). These provisions are summarized in the following paragraphs.

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<sup>1</sup> See for example, sections 86(2) (for enforcement of arbitral awards made in or outside Hong Kong) and 89(3) (for enforcement of New York Convention awards, other than China or any part of China, as defined by Cap. 609).

6. Under the new section 103C of Cap. 609, a dispute over an IPR ("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", as defined in the new section 103B, includes a patent, trade mark, design and copyright.

7. The new section 103D provides that an IPR dispute is capable of settlement by arbitration as between the parties to the IPR dispute despite the fact that 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) enables the parties to an IPR dispute to limit an arbitral tribunal's power as regards remedies or reliefs.

8. Under the new section 103E, the fact that an entity is a third party licensee<sup>2</sup> in respect of an IPR does not 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 Cap. 609. However, the right or liability between a third party licensee and a party to the arbitral proceedings arising in contract or by operation of law will not be affected. The effect of this new provision is that 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 to the arbitration.

9. The new sections 103F and 103G provide that an arbitral award may not be set aside or regarded as contrary to the public policy in Hong Kong under section 81 of Cap. 609, nor may the enforcement of an arbitral award be refused or regarded as contrary to the public policy in Hong Kong under Part 10 of Cap. 609, only because the award involves an IPR.

10. The new section 103H provides that section 73(1) of Cap. 609, 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

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<sup>2</sup> The new section 103E(4) provides that "third party licensee" 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.

an arbitration, applies in relation to a judgment entered in terms of an arbitral award involving IPR (including declaratory award) for the purpose of enforcing an arbitral award under Part 10 of Cap. 609.<sup>3</sup>

11. The new section 103I provides that a party may put the validity of a patent in issue in arbitral proceedings.

12. The new section 103J provides for arbitral proceedings for the enforcement of rights conferred under the Patents Ordinance (Cap. 514) in relation to short-term patents.

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

14. Clauses 6 and 7 provide for the necessary savings and transitional arrangements by amending section 111 of Cap. 609 and adding a new Part 3 of Schedule 3 to Cap. 609.

#### Updating contracting parties

15. 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" with "Faroe" and by adding "Andorra" and "Comoros". Under section 90(2) of Cap. 609, inclusion in the list is conclusive evidence that the State or territory specified in the Schedule to Cap. 609A is a party to the New York Convention. An arbitral award made in such a State or the territory, other than China or any part of China,<sup>4</sup> is recognized and enforceable under section 87 of Cap. 609.

#### **Commencement**

16. Clause 1 proposes that, the Bill, if passed, would come into operation in three phases. The provision in relation to the short title and commencement (i.e. clause 1) and the provisions concerning the amendments to the Schedule to Cap. 609A (i.e. clauses 8 and 9) would come into operation on the day on which the enacted Ordinance is published in the Gazette. The remaining provisions in relation to the arbitration of IPR disputes, except the new section 103J (concerning enforcement of rights conferred under Cap. 514 in relation to short-term patents), would come into operation on 1 October 2017.

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<sup>3</sup> Under sections 84, 87, 92 and 98A of Part 10 of Cap. 609, an arbitral award is enforceable in the same manner as a judgment of the Court of First Instance that has the same effect.

<sup>4</sup> See sections 92 (for enforcement of Mainland awards as defined by Cap. 609) and 98A (for enforcement of Macao awards as defined by Cap. 609).

The new section 103J would come into operation on the day on which section 123<sup>5</sup> of the Patents (Amendment) Ordinance 2016 (Ord. No. 17 of 2016) comes into operation.

## **Public Consultation**

17. According to paragraphs 21 and 22 of the LegCo Brief, the Working Group on Arbitrability of Intellectual Property Rights<sup>6</sup> generally supports the legislative proposals. The Administration also consulted the legal and other professions, business associations, chambers of commerce and other interested parties on the proposed amendments in December 2015. No in-principle objection has been raised.

## **Consultation with LegCo Panel**

18. According to the Clerk to the Panel on Administration of Justice and Legal Services, the Panel was consulted at its meeting on 26 January 2016 on the proposed amendments to Cap. 609. Members generally supported the introduction of the Amendment Bill into the Council.

## **Conclusion**

19. The Legal Service Division is scrutinizing the legal and drafting aspects of the Bill and may report further if necessary. Members may wish to consider whether a Bills Committee should be set up to study the Bill in detail.

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<sup>5</sup> Section 123 of Ord. No. 17 of 2016 amends section 129 of Cap. 514 to make provisions concerning court proceedings for the enforcement of rights under short-term patents.

<sup>6</sup> According to paragraph 21 of the LegCo Brief, the Working Group on Arbitrability of Intellectual Property Rights was set up by the Department of Justice in around May 2015 to, among others, consider and advise the Government on the need and extent of legislative amendments that are necessary to address the issue of arbitrability of IPRs.