ARBITRATION OF IP DISPUTES IN HONG KONG AND CHINA:
Are there issues with arbitrabilty?

Douglas Clark

Global Head of Dispute Resolution

Introduction

This article provides an overview on the arbitration of IP disputes with a general focus on the arbitrability of IP disputes in Hong Kong and the Mainland of China.

The arbitration of IP disputes has grown in the past decades, particularly in relation to disputes involving the Mainland of China or Mainland Chinese parties. The majority of disputes have been in the context of commercial contracts, especially, licensing and franchising disputes as well as technology transfer disputes. In the latter case, the alleged breaches are usually improper use of transferred technology during or after the term of contract or that technology transferred is not up to contractual specifications.

Issues of infringement and validity of IP rights outside of a commercial agreement have been less often the subject of arbitration. The principal reason for this is because it is very hard to get parties to agree to arbitrate once the dispute has started. In many cases, one party or other considers litigation offers it more leverage in resolving a dispute.

However, there is now more arbitration of infringement and validity disputes. Some settlement agreements provide for arbitration of future disputes; competition authorities when handling competition complaints encourage arbitration (particularly for disputes involving standard essential patents); and sometimes parties wish to avoid multi-jurisdictional disputes.

Public policy issues

Arbitration of IP rights raises a public policy issue. IP rights are granted by the state and can be enforced against any person. There is a public interest in any decision as to whether IP rights have been infringed or valid being determined in a public hearing. In particular, in relation to the validity of IP rights because they affect third parties, there is a good case to be made the state should be the one to determine their validity by way of a public hearing and decision. The validity of IP rights not only affects parties to dispute but also the public at large. If an arbitral tribunal decides that an IP right is invalid in a confidential hearing, this will not be known to others, and in most countries, will not serve to invalidate the right on the register.

For this reason, some countries have limitations on the arbitrability of IP disputes.[1] South Africa is the strictest and does not allow either infringement or validity to be arbitrated.

[1] See further: Vicente, Dario. (2015). Arbitrability of intellectual property disputes: A comparative survey. Arbitration International. 31. 163-170. 10.1093/arbint/aiv002.

Some jurisdictions, such as the Mainland of China, do not allow validity of IP rights to be arbitrated, whereas many countries allow decisions on validity that are valid only *inter-partes* (such as Hong Kong, United States, United Kingdom, Germany). A very small number of countries will allow for arbitral award to be the basis for formal invalidation (such as Switzerland).

The position in Hong Kong and China is discussed below.

IP Arbitration in HK

The Hong Kong Arbitration Ordinance was amended with effect from January 2018 to provide that all IP disputes are arbitrable in Hong Kong. Before these amendments, it was generally considered that IP infringement and validity were arbitrable, but the amendments have put this beyond doubt.[2] The key provisions in relation to arbitration of IP disputes are found in Part 11A.

S.104(1) sets out, very simply, the key principle:

“An IPR dispute is capable of settlement by arbitration as between the parties to the IPR dispute.”

S.104(3) adds that S.104(1) applies even as the IPR dispute is incidental to the main issue in the arbitration.

An IPR Dispute is defined very broadly in S.103C:

"In this Part, a dispute over an IPR (IPR dispute) includes—
(a) a dispute over the enforceability, infringement, subsistence, validity, ownership, scope, duration or any other aspect of an IPR;
(b) a dispute over a transaction in respect of an IPR; and
(c) a dispute over any compensation payable for an IPR."

IPR is also defined very broadly in S.103B(1) to include: a patent, a trade mark, a geographical indication, a design, a copyright or related right, a domain name a layout-design (topography) of integrated circuit, a plant variety right, a right in confidential information, trade secret or know-how, a right to protect goodwill by way of passing off or similar action against unfair competition, or any other IPR of whatever nature. Further under S.103B(2), a right is an IPR whether registered or not, and whether registrable or not.

S.103(4) further provides that an IPR dispute may be resolved by arbitration even if a specified entity in Hong Kong or elsewhere is given jurisdiction to deal with the dispute. This is intended to make it clear that even if a court or other body is given jurisdiction to deal with an dispute over IP rights, a Hong Kong seated arbitral tribunal may also decide the dispute.

[2] See the Report of the Bills Committee on Arbitration (Amendment) Bill 2016, LC Paper No. CB(4)1160/16-17

With regard to patents, S.103I specifically provides that S.101(2) of the Patents Ordinance (which provides that validity of patents may only be put in issue in specified proceedings) does prevent validity being raised in arbitral proceedings. S.103J also has provisions in relation to short term patents and waives the requirements for a patentee to request substantive examination prior to enforcing a short term patent.[3]

Arbitral tribunal decisions only apply inter-partes

Effect on official registers

The wording of S.104(1) that any dispute may be settled "as between the parties" makes it clear that IPR disputes may only be resolved *inter-partes*.

If an arbitral tribunal finds a Hong Kong IP right invalid, this cannot be used to formally revoke the right. S.103H of the Arbitration Ordinance in relation to an award involving an IPR dispute made in Hong Kong or elsewhere provides that S.73(1) of will apply. S.73(1) provides that a judgment on an award is only final and binding on the parties or "any person claiming through or under any of the parties". An award will, therefore, not be binding on the Registrar of Patents, Trade Marks or Registered Designs.

Further, S.91 of the Patents Ordinance (Cap. 514) gives only the Court of First Instance the power to revoke a patent. Ss.52 and 53 of Trade Marks Ordinance give only the Court of First Instance or the Registrar of Trade Marks the power to revoke or declare invalid a trade mark. Ss. 46 to 48 of the Registered Designs Ordinance give the Registrar or Court of First Instance the power to revoke a registered design.

Third parties

A decision of an arbitral tribunal could impact third parties, particularly a third party licensee of an IP right. For example, if an IP right is found invalid in court, a licensee will generally no longer be liable to pay royalties in relation to this right. On the other hand, if an IP right is held valid in court, this can make it harder for another licensee to challenge its obligation to pay royalties.

S.103E(2) provides that in the case an award is made:

"The fact that an entity is a third party licensee in respect of the IPR does not of itself make the entity a person claiming through or under a party to the arbitral proceedings for the purposes of section 73(1)(b)."

S.103E(3) however, provides a carve out for any contractual agreement to the contrary or by operation of law.

[3] Patents Ordinance (Cap 514), s 129A. See Division V **[174]**

The wording of S.103E(2) is somewhat opaque. However, in the LegCo Report of the Bills Committee on Arbitration (Amendment) Bill 2016[4], it was explained [at para 12] that this section was intended to mean:

"[T]hird 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."

However, under S103E(3), if the parties have agreed that an arbitral award between the rights holder and another licensee will be binding on them, then the award will apply. Similarly, if the law of a country provides that an arbitral award can be used to invalidate a right on the register then this will override S103E(2).

With regard to enforcement of an award in Hong Kong, the effect of S.103H discussed above will mean that an award will not be binding on any third party licensee.

Arbitration of IP disputes – the Mainland of China

Whether an IP right is infringed is generally considered arbitrable in the Mainland of China. Article 2 of the PRC Arbitration Law provides that contractual and other disputes over rights and interests may be arbitrated. A dispute over whether a patent is infringed is a dispute over rights and interests and in the most cases will be decided as part of a contractual dispute.

However, it is generally considered that the validity of IP rights is not arbitrable. Article 3(2) of the the PRC Arbitration Law provides that parties may not arbitrate issues that are to be determined by administrative bodies. Validity of trademark and patent rights are both determined by administrative bodies in the Mainland of China. The Trademark Review and Adjudication Department ("TRAD") (formerly the Trademark Review and Adjudication Board) and Re-Examination and Invalidity Department ("RID") (formerly the Patent Review Board) of the China National Intellectual Property Administration ("CNIPA") are both administrative bodies that are given the sole right to determine validity of patents and trademarks in the Mainland of China.[5]

Possible solutions to lack of arbitrability

As discussed, a Hong Kong seated tribunal can determine if IP rights are valid or infringed. The award, however, may not be enforceable in other jurisdictions. For example, if a Tribunal found certain patents to be invalid but still made an award on certain other patents, a PRC court may refuse enforcement on the basis that the Tribunal's decision on validity was contrary to public policy.[6]

There are a number of possible ways to avoid problems with enforcement. These include:

---

[4] See: LegCo Report of the Bills Committee on Arbitration (Amendment) Bill 2016 (https://www.legco.gov.hk/yr16-17/english/bc/bc101/reports/bc10120170614cb4-1160-e.pdf)

[5] PRC Patent Law, Article 45; Trademark Law, Article 44

[6] See discussion below on enforcement of awards.

1. If the dispute is over damages or royalties, the parties may draft a clause that allows the arbitrator to determine the amount to be paid, taking into account her views of infringement and validity, but not making a final determination as to infringement or validity.
2. Alternatively, the parties may simply ask the arbitrator decide on an amount to be paid. The parties, in such a case could also agree a high/low number in advance to ensure some minimal award is made and limit the maximum amount to be paid.

Conclusion

It is clear that all IP disputes may be arbitrated in Hong Kong under the 2018 amendments to the Hong Kong arbitration ordinance. However, because validity is not arbitrable under Mainland Chinese law care must be taken in drafting arbitration clauses, preparing and advancing cases to ensure that any award will be enforceable.

Douglas Clark
Global Head of Dispute Resolution, Rouse
dclark@rouse.com

This article is extracted from a longer chapter on arbitration of IP disputes published by Douglas Clark in Intellectual Property in Hong Kong (Lexis Nexis), available on LexisRed.