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Arbitration in IP Matters in China and South-East Asia

China & South-East Asia IPR SME Helpdesk

Philippe Girard-Foley
China and South-East Asia IPR SME Helpdesk External Expert

Date: 08 August 2016

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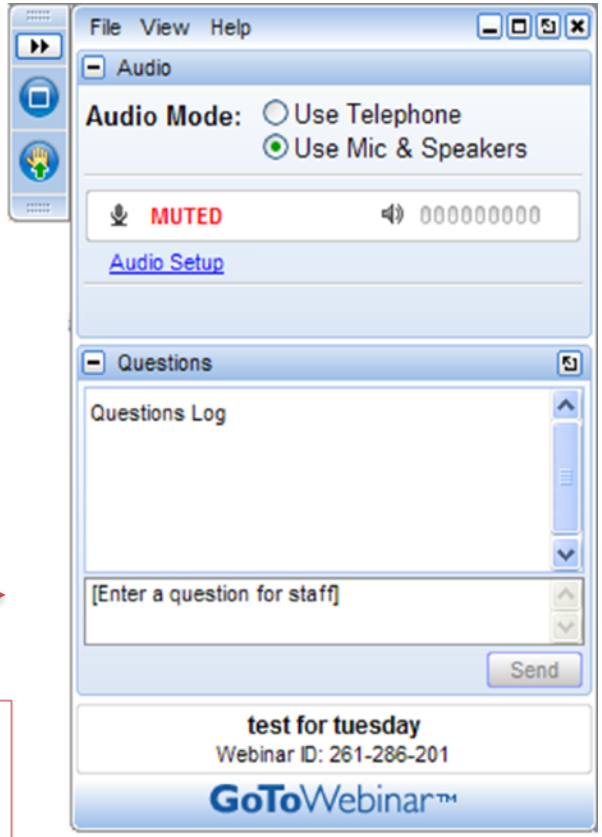

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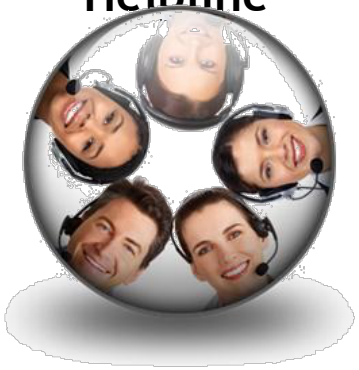

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Speaker's Bios

Name: Mr. Philippe Girard-Foley
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Over a continuous presence of more than 25 years, Philippe Girard-Foley has helped many European companies protect and defend their IP rights and establish a successful business in Asia, through direct investment, partnership, distributorship, agency, franchising or otherwise. He is a regular speaker at events focusing on ASEAN matters, and has authored several publications on ASEAN IP laws.

Philippe Girard-Foley has received both a civil law and common law education (Paris Sorbonne, Paris Institute of Political Sciences, University of Pennsylvania Law School, CIArb London) and is a member of the Paris Bar from France as well as an associate member of the Victoria Law Institute from Australia. Philippe joined the Helpdesk network in June 2013.

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Outline of the Presentation / Agenda

1. SME's legitimate concerns about exposing their IPR's to risks in Asia:

- IP disputes can arise from a long list of business situation
- China/SE Asia perceived as a high-risk area for IPR's due to a lack of enforcement
- IPR disputes potentially most harmful to SME's

2. Advantages (and limitations) of international arbitration for the resolution of IP disputes
3. Arbitration and IP as mutually exclusive - why it is not "quite" the case and how to address it
4. The diversity of IP arbitration in China/SE Asia
5. Not enough arbitration institutes in China/SE Asia? Actually plenty and how to use them

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Introduction: a Concern for EU SME's

- protection of their IPR's when entering Asian markets
- beyond the faded issue of counterfeit, the current challenge is the protection of IPR's in a broad sense
- concern about litigation which may be perceived as being biased, inefficient, costly, time-consuming
- arbitration the answer?

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International Disputes over IPR's - What they Cover?

The issues:

- validity
- "commercial"

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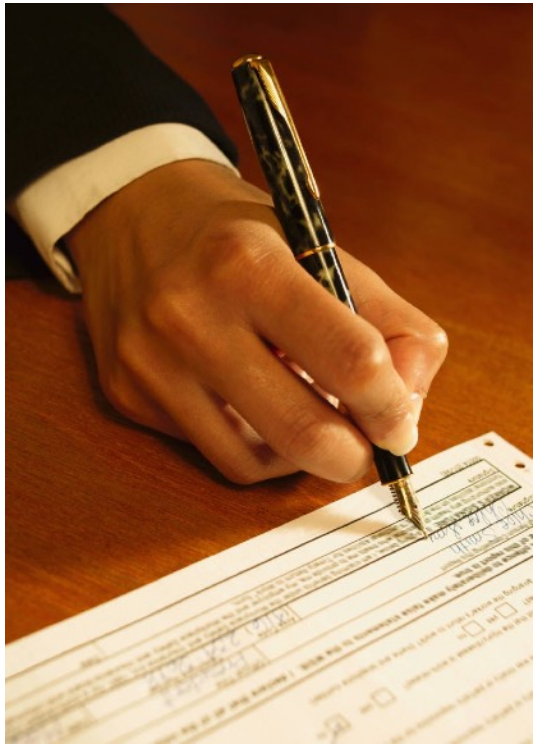
Potential Matters

- cross-border licences
- technology transfer agreements
- joint research and development projects
- distributorship arrangements
- non disclosure agreements
- domain names
- settlement agreements



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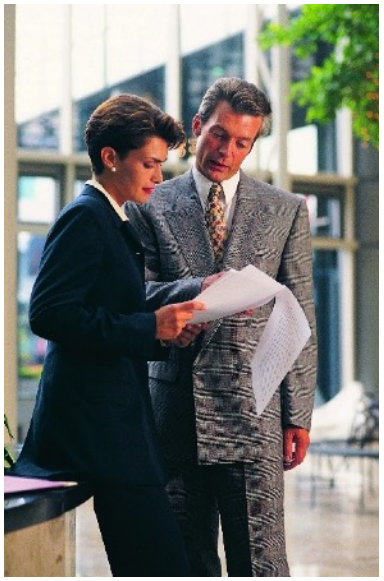
Potential Disputes



- breach of contract
- infringement
- enforcement
- misuse of confidential information/trade secrets
- industrial espionage
- licensee's use exceeding licensed scope
- licencee's disclosure of the licensor's technology
- licencee's unauthorised sub-license of the licensor's technology

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IPR Issues Specific to Doing Business in China/SE Asia

- IPR's territorial by nature
- difficulty enforcing in another country
- litigation in multiple foreign courts
- different judicial systems (civil law in most of EU, civil inspired in PRC and Vietnam, common law in Singapore, Malaysia, Hong Kong)
- judges with varying degrees of experience and qualifications

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Issues About Asia (Continued)

Generates:

- costs
- time-consuming (including management, time important to SME's)
- even if judgement is successful, problems arise with enforcement

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Advantages of International Arbitration (Some Specific to IP)

- single forum
- party autonomy
- neutrality
- expertise (particularly important in IP matters)
- flexibility (procedural and remedies)
- confidentiality (highly important in IP / sensitive technical or business information)
- consolidation

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Advantages (Continued)

- finality
- preservation of business relationship (e.g. licensor/licensee, principal/distributor)
- relative speed (no docket of cases, possibility to ask for undertaking as to arbitrators' workload)
- avoidance of perceived local bias/corruption/inferior legal system

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Advantages (and most importantly…)

- Enforceability !
- Court decisions are usually enforceable only within the same country where they are issued
- which creates a serious practical problem when the assets of the losing party are situated in another jurisdiction
- Arbitration brings a solution: under the New York Convention on the Recognition and Enforcement of Foreign Arbitral awards of which Brunei Darussalam, Cambodia, China, Indonesia, Laos, Malaysia, Myanmar, the Philippines and EU states are signatories, arbitral awards are binding and enforceable in all of 156 signatory states except on limited grounds

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Limitations of IPR International Arbitration

- convince the other party, if no preexisting contractual provision (but should be in licenses, distribution agreements…etc.)
- no public legal precedent (inter partes)
- discovery more limited (but only an issue for common law governed companies, most of EU companies are not)
- arbitrability not universally recognised (no problem for IP rights created by the rights owner e.g. trade secrets, problem in the opposite case e.g. patents; depends on jurisdictions) split between invalidity/infringement, enforceability depends on jurisdiction where enforcement is sought

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The Issue of Arbitrability for IPR Disputes

The principle:

- legal protection granted by local sovereign power (exclusive rights) to use and exploit the right
- should be determined by the authority which granted the right (or the court of that country)

But:

- arrangements relating to the development, use, marketing or transfer of IP rights; and
- disputes arising from such "commercial" arrangements are *inter partes* matters and arbitrable

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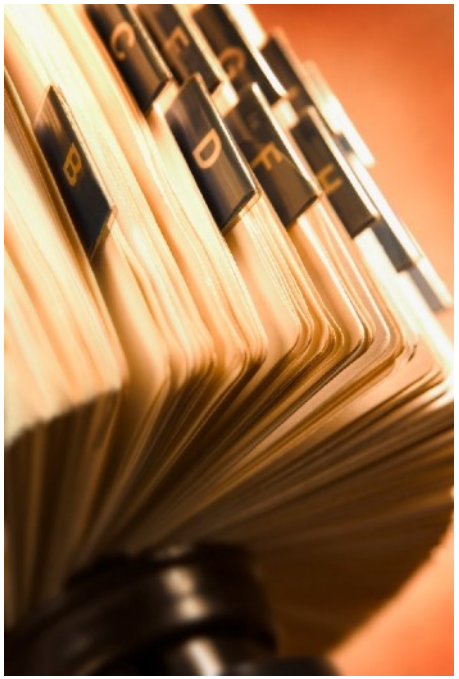
Arbitrability Continued



Two questions to consider:

- subject matter capable for arbitration
- public policy

Examples of interpretation in SE Asia:

- Singapore: not a public policy issue (interpretation of the International Arbitration Act)
- Hong Kong: no specific legislative provision

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Variety of Solutions in China/SE Asia

Joinder (principle)

- Singapore SIAC: consent of the applicant party and the party to be joined
- Hong Kong HKIAC: if additional party, "bound by an arbitration agreement"

Joinder (before the constitution of the arbitral tribunal)

- SIAC: not allowed
- HKIAC (and ICC): allowed

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Variety Continued

Consolidation

- SIAC: no rules
- HKIAC: specific rules (waiving of rights, revocation of arbitrator, appointment of the tribunal for the consolidated proceedings)

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A Trait of IP Arbitration in China/SE Asia: Regional Competition (Singapore)

WIPO Centre

- established 2010
- Singapore substantive law in only 25% of cases involving an Asian party
- joint dispute resolution procedures for various IP offices in Asia e.g. Indonesia and the Philippines

Singapore International Arbitration Centre

- established 1991
- SIAC Rules (latest 2016)
- Shanghai and Mumbai office

Singapore International Arbitration Court

- established 2013
- "a companion rather than a competitor to arbitration"

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Regional Competition Example 2: Hong Kong

CIETAC Hong Kong Arbitration Center

- only CIETAC office established outside Mainland China (2012)
- own judicial and arbitration regime under the "one country, two systems" principle
- where "seat" is Hong Kong, law for arbitration is Arbitration Ordinance (cap 609) which adopts UNCITRAL model law
- 2015 CIETAC Rules - special provisions for CIETAC Hong Kong arbitrations
- separate fee schedule
- parties may nominate an arbitrator not on CIETAC panel
- emergency appointment and interim measures

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Hong Kong (Continued)

Hong Kong International Arbitration Center

- arbitration/mediation/adjudication/domain names
- has appointed a specialised panel of arbitrators for IP disputes (March 2016)
- opened office in Shanghai in November 2015
- has office in Seoul since 2013, has entered MOU with Russian Arbitration Association (May 2016)

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China

China International Economic Trade Arbitration Commission (CIETAC)

2012 “split” between CIETAC in Beijing and its sub-commissions in Shanghai and Shenzhen:

- sub-commissions no longer authorised to accept and administer CIETAC arbitrations
- CIETAC sets up new sub-commissions in Shanghai and Shenzhen
- breakaway Shanghai and Shenzhen sub-commissions set up their own independent commissions: SCIA and SHIAC (respectively “South China” and “Shanghai”)

2015 Rules of CIETAC: sub-commissions renamed as “Shanghai Office, Arbitration Court of CIETAC” and “South China Office, Arbitration Court of CIETAC” and creates CIETAC Hong Kong.

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Conflict between Two Competing Arbitration Regimes

Conflict between the “old” and the “new” sub-missions:

Rules 2015: where an arbitration agreement provides for arbitration before the former Shanghai or South China (Shenzhen) sub-commissions whose authorisation has been terminated, “the arbitration will fall under the jurisdiction of, and will be administered by CIETAC (Beijing)”

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Conflict (Continued)

The “old” sub-commissions fight back…

The Shanghai International Commission (SHIAC) and Shanghai International Arbitration Center:

- establish the China (Shanghai) Pilot Free Trade Zone Court of Arbitration (the “Pilot Court”) in October 2013
- adopt the SHIAC Arbitration Rules (2013 Rules) and the China (Shanghai) Pilot Free Trade Zone Arbitration Rules (2014 Pilot Rules)

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The FTZ Arbitration Rules

The China (Shanghai) Pilot Free Trade Zone Arbitration Rules (the "FTZ Arbitration Rules") effective on 1st May 2014, as interpreted by Shanghai nº2 Intermediate People's Court Guidelines provide for:

- a broad scope of competence: apply not only to cases related to the FTZ, may also apply to cases where parties have agreed to apply the FTZ Arbitration Rules
- interim measures (preservation of evidence and requesting/prohibiting a party to perform) and their enforcement
- specific time limits and expedited procedures (specially important in IP matters e.g. short term value software programme)
- open panel of arbitrators
- consolidation of arbitration
- "ad hoc" arbitration allowed (non specific designation of an arbitration institute, not allowed under PRC laws)

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FTZ Rules Continued

- award ex aequo et bono (i.e. in accordance with equitable principles and common good) unless violates any mandatory or public policy provisions (but issue about enforcement in PRC itself)
- parties' choice of rule relative to admissible evidence (PRC/civil law/common law inspired rules)
- Secretary (before formation) or arbitral tribunal can permit or disallow an application for a joinder regardless of whether the third party is a signatory of the arbitration ag
- enforcement of arbitral awards
- separate mediation procedure

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CIETAC Fights Back…

CIETAC Rules 1st January 2015

Improvements include:

- emergency arbitrators
- consolidation of related arbitration proceedings
- single arbitral proceedings arising out of multiple contracts
- tribunal's powers to join third parties
- summary procedures

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Practical Advice nº1

Consider the options - where arbitration should be chosen as the best course of action in IP related disputes:

- is there a business relationship worth preserving (e.g. issue arising from the conduct of the employee of a fundamentally good distributor or agent) or too costly to destroy (risk of having to pay damages on other grounds ?
- are they alternative remedies which only an arbitral tribunal could award (e.g. the infringer becomes a supplier, example BMW in Taiwan)?
- Is it advisable to avoid a public dispute (e.g. risk of being put on an official or unofficial “black list”)?
- Is there a need for a precedent with a deterring effect (e.g. Lacoste v Crocodile)?

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Practical Advice nº2

Drafting efficiently the arbitration clause in the event of IP related international disputes

- be careful about "carve out" IP issues including within IP between validity and infringement
- harmonise multiple agreements in order to avoid inconsistencies among arbitration provisions
- draft "step clauses" common in Asia contracts ("friendly discussions" then mediation then arbitration) so as to avoid condition precedents, potentially harmful in urgent IP cases where time is of the essence
- cover the issue of discovery rules, strike a balance between civil law and common law principles, keep away from stringent local law requirements e.g. PR China

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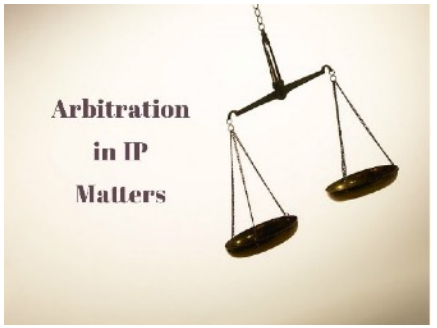
In Conclusion



IPR arbitration in Asia (China and South East Asia) is not an easy matter to understand, even for the experts…but it exists!

It is an potentially an efficient, cost friendly way of resolving disputes not to be ignored or dismissed.

It can only work as long as it is carefully planned and properly administered.

But for a SME which can't afford to overspend in management time, attorneys' fees and court fees, it remains (with care) a highly attractive option

Q&A

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