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Current Legal Developments in Hong Kong and China

April 2015

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In the following Newsletter we would like to inform you about the latest legal developments in Hong Kong and Mainland China. The main focus of this newsletter are the recent developments in Arbitration and the rights in regards to Intellectual Property Law.

I. Arbitration

1. New HKIAC Procedures

The Hong Kong International Arbitration Centre ("**HKIAC**") has introduced the new HKIAC Procedures for the Administration of Arbitration under the UNCITRAL Arbitration Rules, effective as of 1 January 2015. The new Procedures provide a system that conforms to all versions of the UNCITRAL Arbitration Rules, superseding the HKIAC's previous procedures for the administration of arbitrations under the UNICITRAL Arbitration rules.

The key highlights of the new procedures are:

a) Serving Notice of Arbitration and Response to the Notice of Arbitration

According to Articles 6 and 7, a party who wants to initiate recourse to arbitration must submit a notice of arbitration to the HKIAC **and to the other party**. The other party has to file a response to the HKIAC and to the other party within 30 days.

b) Procedure for Challenging Arbitrators

Article 10 allows the HKIAC to decide over a challenge of an arbitrator in accordance with the procedures in the applicable

details such as how and when a challenge must be

made, the need for payment of a registration fee, how the parties and the arbitrator may respond and that HKIAC is under no obligation to give reasons for its determination when it decides whether to allow or reject a challenge.

c) HKIAC's Prima Facie Power to Proceed

When there is a challenge to the existence, validity or scope of the arbitration agreement(s) or to the competence of the HKIAC to administer the arbitration, the HKIAC can accept an arbitration proceed if it is satisfied that – prima facie – an arbitration agreement may exist.

d) Deposit of Costs

The parties need to deposit an equal amount to the HKIAC as an advance for the costs of the arbitration and may be requested by the HKIAC to make further deposits.

e) Exclusion of Liability

According to Article 19 certain parties are not liable for any act or liability in connection with the arbitration, except for dishonest acts or omission. These parties include the HKIAC, its personnel, other bodies designated by the HKIAC, the arbitral tribunal itself, any tribunal-appointed expert, or a secretary of the arbitral tribunal

2. Hong Kong becomes a Host Country for Permanent Court of Arbitration proceedings

On 4 January 2015, the Permanent Court of Arbitration ("**PCA**") and the Government of the People's Republic of China signed a Host Country Agreement and related Memorandum of Administrative Agreements. The result is the establishment of a legal framework in Hong Kong under which PCA-administered proceedings can be conducted in Hong Kong on an ad-hoc basis, without the need for a physical presence of the PCA, which is based in The Hague, Netherlands.

The PCA is an intergovernmental organisation with 116 member states (amongst others: People's Republic of China, Austria, Germany, Singapore) which provides facilities and support services for PCA-administered arbitration, conciliation, mediation and fact-finding commissions of inquiry between member states.

A Host Country Agreement secures the provision by the host country of facilities and services required for PCA-administered proceedings, such as office and meeting space and secretarial services, which may be offered at no cost to parties in such proceedings. Furthermore, Host Country Agreements regulate the privileges and immunities afforded by the host country to adjudicators and participates in such proceedings.

The PCA has concluded Host Country Agreements with other Asian countries in view of the increasing demand for arbitration services for disputes between investors and states involving Asian parties. Hong Kong will be able to handle PCA-administered proceedings, including some of the 100+ cases currently outstanding. This will enhance Hong Kong's position as an international arbitration centre and amounts to a vote of confidence in Hong Kong and its legal system.

3. Arbitration Ordinance to be amended

On 23 January 2015, the Arbitration (Amendment) Bill 2015 was introduced into the Legislative Counsel and had its first reading on 4 February 2015.

The purpose of the bill is

- to remove some legal uncertainties about the opt-in mechanism for domestic arbitrations under Part II of

the Arbitration Ordinance (Cap 609); and

- to update the list of parties to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 ("the New York Convention").

The amendments proposed in the Bill make it clear that parties can opt for domestic arbitration and decide on the number of arbitrators and still retain their right to seek the ordinary courts' assistance on those matters. The revisions once enacted should improve the opt-in provisions for domestic arbitration and thereby enhancing Hong Kong's status as international arbitration venue.

4. New Jurisdiction about the Seat of an Arbitration and the applicable Law

A recent Hong Kong High Court decision (*Shagang South-Asia (Hong Kong) Trading Co. Ltd v. Daewoo Logistics)* considered the position when a contract provides for the law of one jurisdiction to be applicable, but for the arbitration to take place outside that jurisdiction.

The parties entered into an agreement which provided for arbitration of their disputes and specified: "Arbitration to be held in Hong Kong. English Law to be applied."

The Court concluded that the arbitration ought properly to have been subject to Hong Kong procedural law. It placed weight on the following points:

- It would be unusual for the parties to specify the applicable procedural law for the arbitration proceedings and even more unusual for them to wish to apply the procedural law other than that of the seat of the arbitration.
- By contrast, it is quite common for parties to apply different laws in respect of the substance of the dispute or the procedural aspects of the arbitration.
- Clear words or indications are required in order to displace the presumption that the parties want the procedural law of the seat of the arbitration.
- The opinion of the court is based on numerous similar decisions of previous cases.

This decision affirms the commonly accepted opinion that the choice of an arbitration seat **implies a choice of the procedural law of that seat**. Parties wishing, for whatever reason, to apply a different procedural law to that of the seat, must use clear and unambiguous words in their arbitration agreement. This decision also serves as a reminder of the importance of clear drafting, particularly in the context of dispute resolution clauses.

II. Intellectual Property

1. Obtaining Damages through Negotiation in Criminal Proceedings in China

In criminal IP proceedings, the Chinese courts tend to not accept a civil claim collateral to criminal proceedings filed simultaneously by the victim IP owner. Therefore, in criminal proceedings the victim and the infringer should seek to reach an agreement on damages through negotiations, since it will help the victim to obtain compensation and the infringer to obtain a commuted sentence.

In March 2014 a German trademark owner discovered that a Chinese company was engaged in the sale of counterfeit machinery and equipment in Guangzhou. After the oral hearing at the public prosecution, the court informed the trademark owner that the Chinese company wished to indemnify it for the damage suffered in exchange for a suspended sentence. Through negotiations the Chinese company apologised for its

behaviour, paid compensation in the amount of RMB 380,000 (approx. EUR 55,000) and promised to pay RMB 1 million (approx. EUR 148,000) as compensation in case of repeated infringement in the future.

In practice, if the victim files a civil action after the criminal case has been concluded, the Chinese court may, when deciding on the amount of damages, take into account the fact that the infringer has paid a fine or been sentenced to imprisonment, thus rendering a less satisfying judgment for the victim. In such cases, it is advisable that the victim seeks a considerable amount of compensation through negotiations, which has no substantial impact on the sentence in the criminal case.

2. Hong Kong Court addresses Key Aspects of the Hong Kong Trademark Law

In the recent case *Vita Green Health Products Company Limited v Vitasoy International Holdings Limited (HCMP 593/2014)*, the Hong Kong Court of First Instance highlighted some important principles of trademark law which should be considered when applying for or opposing a trademark.

These principles are in particular:

- While a mark may have an established reputation in respect of particular goods, that does not mean that reputation will extend to other similar goods.

- It is important to consider the publicc of Hong Kong when assessing whether a particular mark will be considered descriptive or distinctive. Decisions from other jurisdictions may not assist in this regard.

- The Court will be slow to overturn a decision of a Registrar where the conclusion was based on contextual assessment and evaluation.

3. Liability of Managing Director for Copyright Infringement in Germany

On 5 December 2014 the Cologne Higher Regional Court (6 U 57/14) ruled that the managing director of a German limited liability company (GmbH) is personably liable for copyright infringement committed by the company.

The plaintiff operated an online shop for cosmetics and perfumes. On discovering illegal use of its copyrighte-protected photographs of its products by another online shop, the plaintiff asserted its claim against the infringing company and its managing director seeking cessation, information and damages.

The Cologne Higher Regional Court stated that the managing director was personally liable for the copyright infringement. Liability could be refused only if the director had not participated in the infringement and knew nothing about it. As such a lack of knowledge was not applicable in this case, the Court found the managing director liable to the same extent as the company.

The Court further noted that the managing director could not rely on a German Supreme Court decision (I ZR 242/12) which increased the requirements for finding a managing director personally liable in the field of unfair competition law. The Supreme Court had justified its decision by stating that the "liability of interference" will no longer apply in unfair competition law. However, the Cologne Higher Regional Court argued that the liability of interference will still apply in IP law, as it affects absolute rights.

The Cologne Higher Regional Court was the first Court to give a (negative) answer to this question. However, it remains to be seen whether other (higher) courts will take the same view.

III. Tax Law

1. New Chinese Law targets Tax Avoidance

The People's Republic of China has stepped up its participation together with other countries in the G20's fight against international tax avoidance by passing a law cracking down on the indirect sale of assets outside the country to avoid paying taxes.

The new law addresses cases where a Chinese company sells an asset by its offshore company vehicle located outside China which owns the asset. Investors can use this method to avoid paying taxes in China by claiming the transaction took place outside China.

The law will mostly affect investment funds, including private equity funds and venture capital funds, which have investments in China, as well as multinationals that restructured their mainland operations or sold mainland companies. It will further have a significant impact on Hong Kong, a major hub for cross-border deals involving China.

IV. Commercial Law

1. Mainland and Hong Kong Closer Economic Partnership

On 18 December 2014 an Agreement between the Mainland and Hong Kong on Achieving Basic Liberalization of Trade Services in Guangdong was signed, and was implemented on 1 March 2015. This agreement was concluded under the framework of the Closer Economic Partnership Agreement (CEPA) between China and Hong Kong.

The three main concepts under the agreement are:

a) <u>National Treatment</u>

Hong Kong service suppliers where national treatment applies will enjoy the same treatment as the Mainland enterprises, and therefore now extending CEPA to service sectors.

b) <u>Positive Listing</u>

Liberalization measures are set out for Hong Kong by the Mainland, indicating what type of access and what type of treatment for each sector the Mainland is prepared to contractually offer to Hong Kong service suppliers.

c) <u>Negative Listing</u>

A negative list requires that discriminatory measures affecting all included sectors be liberalized unless specific measures are set out in the list of reservations.

For the first time, Hong Kong service suppliers can expect to receive national treatment in Guangdong, with exceptions on the negative list. The Agreement will further increase the liberalization of trade in services and facilitate economic cooperation between Guangdong and Hong Kong. It will open the Guangdong market in various service sectors to Hong Kong investors, consolidation Hong Kong's position in international finance, trade and shipping.

V. Competition Law

1. New Competition Ordinance

The Hong Kong Government has issued three new regulations that take Hong Kong another step closer to fully implementing its new competition law, which is expected to come into full force later this year.

The Hong Kong Competition Ordinance uses the concept of "turnover" in a number of areas. The Competition (Turnover) Regulation clarifies how turnover is to be calculated. Turnover of an undertaking will be the revenue derived by the undertaking from its ordinary activities in Hong Kong,

less sales discounts and less taxes directly related to such revenue.

Two of the regulations relate to who the Ordinance will apply to:

The Ordinance will apply to certain statutory bodies. The Competition (Application of Provisions) Regulation specifies a number of such statutory bodies. In addition the Competition (Disapplication o Provisions) Regulation specifies that the Conduct Rules and the Merger Rules, the enforcement powers of the Commission and the enforcement power of the Tribunal will not apply to companies involved in the operation of the Hong Kong stock and future markets.

It is a positive sign that the government is putting such regulations into place, so as to minimise any potential delay to the Ordinance coming into full effect, expected in the second half of 2015.

VI. Labour Law

2. New MPF provisions in Hong Kong

On 30 January 2015 the Legislative Council passed certain changes to the Mandatory Provident Fund Schemes Ordinance ("**MPFSO**"). The changes will enable the withdrawal of benefits on the terminal illness of an employee and also enable a phased withdrawal of accrued benefits. In addition the MPFSO has been amended to enable MPF trustees to comply with certain reporting obligations due to overseas legislation.

The MPF service providers will amend their documentation to cover the points referred to above. In practice, employers should not have to do anything.

We believe that the information provided was helpful for you.
If you have any further questions, please do not hesitate to contact:

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