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Arbitration of Patent Validity Disputes in China: Practice, Problems and Prospects

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Abstract: The arbitration system has emerged internationally as a convenient and efficient way to resolve disputes. To align with the development trend of the international arbitration system, China has promulgated the draft of its third revised *Arbitration Law* for public comment. In this regard, whether patent validity disputes are arbitrable has once again become a topic of discussion. This paper primarily investigates why it is difficult to develop arbitration of patent validity disputes in China. In addition, it elucidates the arbitrability of patent validity disputes in China from the perspectives of public policy, efficiency, etc. These efforts are intended for providing theoretical basis and suggestions for the development and improvement of patent arbitration system. Through literature analysis method and comparative analysis, this thesis finds that arbitration of patent validity disputes is feasible in China. It further suggests that China should improve its legislative framework for patent arbitration in line with the third amendment and uphold its commercial reservation declaration under the *New York Convention*.

Keywords: patent validity disputes, public policy, arbitration law.

1. Introduction

As a form of alternative dispute resolution, arbitration has gained widespread global adoption due to its benefits, including cost savings, faster resolution times, privacy, confidentiality, and finality [1]. Unlike litigation, arbitration allows parties to customize key procedural aspects to suit their specific needs. In China, with the surge of international commercial arbitration and economic growth since the opening up policy in the late 1970s, the first *Arbitration Law* was enacted in 1995. PRC *Arbitration Law* 1995 first set out the scope of arbitration, which clarified that administrative disputes requiring handling by administrative bodies, as specified by law, cannot be arbitrated [2]. However, in the patent arbitration system, whether the arbitral tribunal has the authority to make arbitral awards on the patent validity issues became a problem, as parties to patent arbitration cases often challenge the patent's validity during arbitration proceedings. After two revisions, this problem remains unresolved. In 2021, the consultation draft of the third revision addressed the issue of the validity of the arbitration agreement. However, since the revision did not focus on this issue, limited research currently addresses it. As such, this paper attempts to fill the gap of arbitrability of patent validity disputes in the context of the *Exposure Draft on Amending the PRC Arbitration Law*. Specifically, it compares China's patent arbitration system with that of major western countries by elaborating on the

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arbitration system on patent validity. In addition, it draws the reasons why western countries are arbitrable on patent validity disputes and why China is not arbitrable. Last but not least, a feasible institutional framework is given in conjunction with the exposure draft. Through the analytical method of comparative law, this study helps to improve the mechanism of extra-litigation settlement of the patent system, and deepen the theoretical discussion of the academics.

2. World Practice in Arbitration of Patent Validity Disputes

2.1. Practice in Western Countries

At present, countries hold different attitudes towards the question of whether the validity of a patent is arbitrable. Most countries do not specify in their laws whether such disputes are arbitrable [3]. In the absence of rules, most countries generally leave the issue to their judiciary to decide on the basis of their understanding and application of the 'public policy' grounds for limiting the arbitrability of disputes. This means that if an arbitral tribunal's ruling on patent validity would violate a country's 'public policy', then arbitration should not be permitted for such disputes. It is uncertain whether the validity of patent is arbitrable in several countries such as China and India, but there are many exceptions like Canada. In Desputeaux v. Éditions Chouette, the Canadian court recognized that legislative policy not only accepts arbitration as a form of dispute resolution but also seeks to promote its expansion [4]. Countries that support arbitration of patent validity disputes generally agree that arbitral tribunals may hear all types of patent disputes, including patent validity issues in conjunction with them. In this context, the outcome of the hearing is valid only for the parties involved in the arbitration.

Nevertheless, some countries, such as the United States and Belgium have explicitly indicated in their legislation that all types of patent disputes may be submitted to arbitration. U.S. patent law states that "An award by an arbitrator shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person" [5]. In contrast, South Africa is the only country so far with domestic legislation that explicitly prohibits the arbitration of patent validity disputes [6].

2.2. Current Practice in China

China's patent arbitration is practically unknown. Patent disputes in China fall into two main categories: administrative disputes concerning patent validity and civil disputes related to patent infringement.

China's *Arbitration Law* states that the scope of arbitration includes contractual disputes and other property-related disputes between citizens, legal persons and other organizations that are equal subjects. Particularly, administrative disputes that shall be handled by administrative organs as prescribed by law are excluded from arbitration [7]. With regard to 'other disputes over rights and interests in property', there is no uniform judicial interpretation. Generally, there are divergent views in both theory and arbitration practice, with the general view being that it refers to all types of disputes arising from property infringement, including disputes involving intellectual property infringement. In practice, arbitration institutions in China have begun to accept disputes over patent contracts, infringement, and ownership. However, patent validity disputes currently fall outside the scope of arbitrable matters. Due to this controversy, the legislature did not amend the scope of arbitration to address patent validity issues in the 2009 revision of the Arbitration Law. From the current arbitration practice, disputes concerning the validity of patents and other disputes involving the validity of intellectual property rights cannot be resolved through arbitration, and the respondent usually uses objections to the validity of the patent as a defence. What should be noticed is that, in the *Exposure Draft on Amending the PRC Arbitration Law*, the legislator removed the restriction of 'equal subjects' in the scope of arbitration, which made it possible for patent validity disputes to be arbitrable.

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3. Comparative Analysis of Arbitrability of Patent Validity Disputes

3.1. Reasons for Western Countries to Support Arbitration of Patent Validity Disputes

As a result of advances in science and technology and the development of global economic trade, economic disputes over patent infringement and validity have witnessed a rapid surge [8]. Therefore, more and more countries have accepted arbitration as a fast and efficient method for resolving such disputes.

Take the United States as an example. Previously, U.S. courts have routinely held that patent validity is relevant to the public policy and have opposed arbitration for such cases. In Lear, Inc. v. Adkins, the United States Supreme Court made it clear that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation [9]. However, this stance was later overturned, as the public interest was minimally affected by such a ruling that places greater importance on the autonomy of parties in dispute resolution. Besides, the rise and development of 'alternative dispute resolution' in the United States have led to a growing appreciation of the advantages of alternative dispute resolution, such as procedural flexibility, speed, cost, non-publicity, etc., and arbitration has been widely recognised. In addition, in disputes over invention rights in the United States, many parties from western European countries prefer arbitration due to a lack of trust in the U.S. court litigation process. Besides, the desire of the judiciary to reduce the backlog of cases in the court system through arbitration is also a strong motivating factor [10]. Apart from the United States, countries such as the United Kingdom and Canada also share the same view and have adopted arbitration for such disputes.

3.2. China's Reasons for Not Supporting Arbitration of Patent Validity Disputes

China enacted its first *Arbitration Law* in 1995, so the understanding of the arbitration system is still relatively new, and many aspects remain vague. At the same time, the courts have not reached a level of full confidence in arbitration. Excessive court intervention and administrative influence on arbitration are still common issues. As a result, in the context of the gradual improvement of our legislation and the lack of practices, China has yet to explicitly confirm or deny the arbitrability of patent validity disputes. In practice, however, the validity of patents is usually not arbitrable for the following reasons.

First and foremost, patent validity disputes are classified as administrative disputes involving the patent administrative authority, which means that they are not disputes between equal subjects and cannot be submitted to arbitration for settlement in accordance with the *Arbitration Law*. *The PRC Patent Law* grants discretionary power over these cases to administrative bodies and the People's Court, and it does not take into account the fact that the defence of patent invalidity raised by the parties in the arbitration process actually belongs to the situation of commercial disputes. Allowing an arbitral tribunal to deal with issues relating to the validity of patents would undermine the exclusive jurisdiction granted to these institutions to adjudicate patent validity. The administrative attributes of the dispute contradicted the *Arbitration Law's* requirement for equal-party cases and places them in the category of non-arbitrable matters, which was the theoretical obstacle that caused this dispute not to be arbitrable, and it was clear that this dispute did not belong to the scope of arbitrability stipulated in China's law [11].

Second, the validity of patent rights is closely related to the public interest. This view is the primary argument scholars use against making patent validity disputes arbitrable. It has been argued that patent rights derive from state authorisation rather than being automatically conferred by law. In terms of procedure, the legal existence and enforcement of rights such as patents can only be interpreted, confirmed and invalidated by the administrative authority that issued or granted the right, or by a

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public authority such as a court of law in the country, and private dispute resolution bodies cannot engage in similar behaviour. In terms of purpose, since patents are monopolies granted by the State, it is the duty of the State's public authorities to a balance between private and public interests concerning patents, as only they can oversee public policy implementation and mediate conflicting interests effectively. If the dispute over the validity of a patent right raised by one party in an intellectual property dispute is referred to an arbitral tribunal for a decision, the public interest will be placed under the 'arbitrariness' of the arbitrator, which seems to be contrary to the spirit and intent of the law. More importantly, this approach may also allow arbitration to become a shield for local protectionism, treating the private interests of the parties as public interests in foreign-related cases and refusing to enforce foreign-related awards.

Third, while some scholars believe that arbitrators are highly qualified, many doubt that arbitral tribunals can match the expertise of patent offices or courts in handling such cases. Therefore, The public remains sceptical about arbitration.

3.3. Justification of Arbitration of Patent Validity Disputes

3.3.1. No Impact on Public Policy

Arbitration proceedings emphasise autonomy, and arbitral awards can only bind the parties involved in the arbitration and hold no legal effect on the rest of society. Since arbitration is typically conducted privately, the proceedings are not publicly accessible and thus do not affect public policy.

It has been argued that the arbitral tribunal does not have the specialized expertise to adjudicate the validity of patents similar to that of a judge or an administrative organ. However, from a practical point of view, China has set up many intellectual property arbitration tribunals in recent years and has heard many intellectual property arbitration cases, which have sufficient professional capacity. The advantage of arbitration is that claimants can select experts with both professional knowledge and a solid legal foundation in the relevant field to serve as arbitrators. In addition, arbitration rules provide for a system of expert witnesses, whereby an expert issues an opinion report on a particular issue in the case, to assist the arbitral tribunal in obtaining the relevant technical information and scientific background knowledge [12]. Therefore, arbitral tribunals possess sufficient expertise to adjudicate patent validity disputes competently.

In *PRC Patent Law*, public policy or public interest is reflected in two aspects: the promotion of the use of science and useful technology, and the promotion of competition for legitimate and effective technology [13]. As arbitration proceedings focus on the autonomy of the parties involved, arbitral awards apply only to those parties and are typically kept confidential. As a result, if the arbitral tribunal made a decision on the invalidity of the patent, the general public cannot be informed or question the patent's validity based on this outcome. Therefore, an arbitral decision on the validity of a patent does not affect the well-being of the public. At the same time, the patent validity dispute is essentially between the patent invalidation applicant and the patentee, which makes it a private matter rather than a 'public vs. government' issue. In this context, the role of China National Intellectual Property Administration as an impartial arbiter can be taken over by an arbitration tribunal without undermining national authority.

3.3.2. Economic Considerations

The patent system is a system that conducts scientific examination of inventions and creations applied for patents in accordance with the provisions of the *Patent Law*, and grants patents to those qualifying inventions, and at the same time makes these inventions public so as to facilitate technological exchanges and transfers. The social utility of the patent system resides in the incentivisation of innovation through the granting of monopoly rights and the acceleration of information disclosure

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through property rights restrictions. Typically, disputes over the validity of patents are usually adjudicated by administrative authorities, and parties are required to bear the cost of time, communication and other factors, in order to ensure whether the patent is valid. But under the framework of the arbitration system, patent validity arbitration provides a centralised and professional platform to deal with patent disputes and reduces the cost of direct negotiations between the parties.

Moreover, arbitration proceedings are usually more flexible and efficient than court litigation, allowing for quicker resolution of disputes. More importantly, the outcome of arbitration takes effect only between the parties and does not derogate from the interests of others. Arbitration is therefore a more efficient mechanism for resolving disputes.

4. Prospects for Arbitrability of Patent Validity Disputes in China

4.1. Arbitration Developments as a Result of the Revision of the *Arbitration Law*

Article 2 of the exposure draft changes the scope of arbitrable matters. In this amendment, the phrase 'equal subjects' is removed and the scope of arbitrable matters is expanded, making it possible to arbitrate between 'unequal' civil subjects. However, the provisions in the *Arbitration Law* excluding the arbitrability of 'administrative disputes' remain almost unchanged in the draft. This means that patent validity disputes may still face limitations if they are considered 'administrative disputes.'

It would be beneficial to clarify the definition and scope of 'administrative disputes' and to exclude patent validity disputes, which do not fall under administrative matters, from this category [14].

In China, disputes relating to the issuance and trading of shares and other disputes closely related to the actions of administrative organs are subject to arbitration. The issuance and trading of shares is managed by the stock exchange, which has assumed certain administrative responsibilities and enjoys certain administrative authority. According to the provisions of the 'provisional regulations', "for disputes concerning the issuing and trading of stocks, the parties concerned may apply for mediation or arbitration with the arbitration organizations according to their agreements" [15]. Similarly, allowing patent validity disputes to be addressed through arbitration should be a future goal.

4.2. Establishment of a Relevant Supporting System for Patent Validity Arbitration

In addition to the relevant improvement of the *Arbitration Law*, it is essential to establish a supporting framework to ensure the effective operation of the patent validity arbitration system. Reference can be made to the patent law of the United States, and it is clearly stipulated in Article 57 'Dispute Settlement' of Chapter 7 'Protection of Patent Rights' of the current Patent Law that property disputes between the parties concerning patent rights can be submitted to arbitration for settlement.

China is also a party to the *New York Convention*. At the time of its accession to the *New York Convention*, it made a commercial reservation to recognise and enforce only arbitral awards related to 'contractual and non-contractual commercial legal relations.' This term refers specifically to economic relations of rights and obligations arising out of contract, tort or in accordance with the relevant provisions of law. Disputes over the validity of patents, which are confirmations or denials of the validity of patent rights, do not fall under this category of legal relationship. Therefore, in terms of legal interpretation, patent validity disputes should not be included in the scope of recognition and enforcement of arbitral awards under the *New York Convention*.

5. Conclusion

With the increasing number of patent disputes in international commercial activities in recent years, the dispute resolution of patent validity is gradually expanding into the field of arbitration. it is

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becoming clear that China's *Arbitration Law*, largely unchanged since 1995, may need updating to keep pace. This article mainly reviews the patent arbitration system of western countries and the current situation of China's arbitration system, while delving into the feasibility of arbitration of patent validity disputes in China today. Besides, it provides the outlook of the future system. Through the comparative study, this essay concludes that arbitration has minimal impact on public policy, while arbitrators have sufficient patent competence. It is worth mentioning that China is expected to realise an arbitration system for patent validity disputes in the future from the perspective of efficiency. However, this thesis has not yet explored more deeply the recognition and enforcement aspects of arbitration, which leaves this area open for future research.

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