

Report No. 47 of the Director of Audit — Chapter 11

REGISTRATION AND PROMOTION OF INTELLECTUAL PROPERTY RIGHTS

Summary

1. The Intellectual Property Department (IPD) is responsible for the registration and protection of intellectual property (IP) rights. Its services include operating the Trade Marks Registry, the Patents Registry and the Designs Registry, and promoting IP protection through public education. In 2005-06, the total expenditure of the IPD was \$75 million.

Audit review

2. The Audit Commission (Audit) has recently conducted a review of the services provided by the IPD. Audit has found that there are areas where improvements can be made.

Registration of trademarks, patents and designs

3. **Examination of trademark applications.** The Trade Marks Registry performs examination of trademark applications and accounts for most of the staff resources of the three Registries. Audit found that the outstanding trademark application cases had increased from about 2,000 in April 2005 to about 5,000 in June 2006, despite the fact that the number of applications received each month had largely remained at below 2,000. *Audit has recommended that the Director of Intellectual Property should take action to reduce the outstanding trademark application cases.*

4. **Need to take measures to facilitate electronic filing.** Electronic filing (e-filing) for trademark applications was introduced in December 2003 and that for patent and design applications was introduced in September 2004. In 2005, the migration rates to e-filing for trademark, patent and design applications were 35%, 23% and 24% respectively. For the first half of 2006, these rates have increased to 42%, 27% and 30%. Audit notes that various factors may have contributed to the limited use of e-filing. *Audit has recommended that the Director of Intellectual Property should consider taking measures to facilitate the use of e-filing.*

5. **Registration fees.** The registration fees charged by each Registry are based on the results of costing exercises for each individual Registry. The latest costing exercise for the Trade Marks Registry was conducted in 2004 and that for the Patents and Designs

Registries was conducted in 2005. The costing exercises were conducted globally for each Registry but not for each individual service. The IPD also had not conducted costing exercises for the purpose of introducing differential pricing for its services provided through the electronic channel and the conventional channel. In October 2005, the IPD undertook to conduct a review of the registration fees for trademarks, patents and designs in the second quarter of 2006. Subsequently, the IPD deferred the review to the third quarter of 2006. Up to 31 August 2006, the IPD had not yet completed the review of registration fees. *Audit has recommended that the Director of Intellectual Property should ensure that the review of registration fees is conducted as scheduled. In reviewing the fees, the Director should conduct costing exercises to ascertain the costs for each individual service and for services delivered through the electronic and the conventional channels, and set the fees based on the results of the costing exercises.*

Administration of the outsourcing contract

6. In September 2001, the IPD launched a five-year pilot scheme to outsource its non-core services. A five-year contract, expiring on 30 November 2006, was awarded to a contractor at a sum of \$87 million. The services to be provided under the contract included three compulsory services, namely the New Application Development Service, the Ongoing Support and Maintenance Service and the Office Operation Service.

7. ***No checking of performance results reported by the contractor.*** According to the contract, if the contractor fails to meet the service levels as specified in the contract, a deduction will be made from the monthly charges payable to the contractor based on the Service Credits mechanism. The contractor submits monthly performance reports to the IPD, showing his performance results against the service levels. However, there is no evidence that the IPD has conducted checking of the performance results submitted. Audit also notes that the IPD has not drawn up any procedural guidance to assist its staff in the administration of the outsourcing contract. *Audit has recommended that the Director of Intellectual Property should set up procedures to check the contractor's performance reports and consider drawing up a guidance manual to assist IPD staff in managing the outsourcing contract.*

8. ***Office Operation Service not subject to the Service Credits mechanism.*** Under the contract, the Service Credits mechanism only applies to two types of compulsory services. The mechanism does not apply to the third type of compulsory service, the Office Operation Service. Given that any failure in meeting the specified service levels for the Office Operation Service will affect the IPD's performance, *Audit has recommended that the Director of Intellectual Property should ensure that the Office Operation Service is covered by the Service Credits mechanism in future outsourcing contracts.*

9. ***No proper assessment of the reasonableness of the manpower requirement.*** In June 2005, the IPD approved a service modification for implementing the new interactive electronic services under the outsourcing contract. The total estimated cost was \$8.8 million, of which \$6.5 million was for system development and implementation. The cost of \$6.5 million was worked out based on the manpower requirement proposed by the contractor. However, Audit could not find evidence to show that the IPD had properly

assessed the reasonableness of the manpower requirement. *Audit has recommended that the Director of Intellectual Property should consult the Office of the Government Chief Information Officer in future to help assess the reasonableness of the manpower requirement.*

10. ***No vetting of the qualifications of the team members.*** The contractor only provided the IPD with the particulars of the project team leader for the service modification. He did not provide the IPD with the particulars of the other project team members. As a result, the IPD could not assess whether the team members possessed the required qualifications and working experience. *Audit has recommended that the Director of Intellectual Property should require the contractor to provide information on the staff provided in future service modifications.*

Administration of the No Fakes Pledge Scheme

11. Under its service for promoting IP protection, the IPD has operated a No Fakes Pledge Scheme (the Scheme) which was launched in 1998. The aim of the Scheme is to encourage retailers to make a pledge of selling genuine goods and promote retailers' and consumers' awareness of IP protection, so as to enhance tourist and consumer confidence in shopping in Hong Kong. All retail merchants participating in the Scheme must volunteer to make a pledge not to sell fakes. On doing so, they may post the "No Fakes" stickers and tent cards issued by issuing bodies in their shops. As at 30 June 2006, there were seven issuing bodies of the Scheme, all of which were trade associations. As at the same date, 388 retail merchants, with 3,263 outlets, joined the Scheme.

12. ***Monitoring of the Scheme.*** The issuing bodies are responsible for monitoring the compliance with the Scheme. However, they are not required to report to the IPD the monitoring work they have performed. *Audit has recommended that the Director of Intellectual Property should take measures to ensure that the issuing bodies have put in place a robust system to prevent abuse of the Scheme.*

13. ***Improper use of "No Fakes" stickers and tent cards.*** Audit notes that 328 members of the Scheme of 2005 had not renewed their membership for 2006. However, the IPD did not take any measures to ensure that these non-members had ceased to use the 2005 "No Fakes" stickers/tent cards. Audit's sample check in June 2006 found that 12 of them were still displaying the 2005 "No Fakes" stickers/tent cards in their shops. The sample check also found a case of a non-member of the Scheme in both 2005 and 2006 displaying the 2005 "No Fakes" sticker/tent card in its shop. *Audit has recommended that the Director of Intellectual Property should ensure that members of the Scheme who have not renewed their membership do not display the "No Fakes" stickers/tent cards and consider setting up a mechanism for tackling the improper use of stickers and tent cards.*

14. ***Need to monitor the use of the "No Fakes" logo in advertisements.*** Audit's sample check of the members' advertisements in May and June 2006 found four cases in which the requirement of seeking prior written approval from the IPD for using the logo was not followed. Audit also found that the logo was presented in various forms in

members' advertisements. *Audit has recommended that the Director of Intellectual Property should ensure that the requirement of seeking prior written approval is strictly followed and consider setting rules for the proper presentation of the logo.*

15. ***Evaluation of the Scheme.*** The Scheme has been in operation for about eight years and problems have been identified. The IPD conducted annual surveys on the public and the business establishments' awareness of the IPD's advertising and promotional activities. However, the public's understanding and expectation of the Scheme have not been assessed. The effectiveness of the Scheme in achieving the objective of enhancing confidence of tourists and consumers in shopping in Hong Kong has also not been assessed. *Audit has recommended that the Director of Intellectual Property should consider assessing the effectiveness of the Scheme.*

Promotion of intellectual property protection

16. Over the years, the IPD has launched various publicity and educational activities to promote the public understanding of IP rights. For some years, the IPD has commissioned annual surveys on the public and business establishments to assess the effectiveness of its promotion and public educational activities and compare the community's changing patterns of awareness of and attitude towards IP rights. The results of the latest surveys have shown that both the public and business establishments are giving increasing attention to IP protection. However, the surveys have shown that infringement of IP rights in Hong Kong is still serious. *Audit has recommended that the Director of Intellectual Property should continue making efforts to promote IP awareness and increase respect for IP rights in the community, and take into account the results of the annual surveys and input from stakeholders in the allocation of the IPD's resources on IP promotion.*

Performance measurement

17. Under the Programme "Statutory Functions" in its Controlling Officer's Report for 2006-07, the IPD has set 6 targets and 14 performance indicators. All of these 20 performance measures related to workloads and service qualities. *Audit has recommended that the Director of Intellectual Property should consider providing unit cost or productivity indicators as far as possible to measure the IPD's cost-effectiveness in the registration and administration of IP rights.*

Response from the Administration

18. The Administration generally agrees with the audit recommendations.

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