

INTELLECTUAL PROPERTY DEPARTMENT: REGISTRATION AND PROTECTION OF INTELLECTUAL PROPERTY

Executive Summary

1. Intellectual property (IP) is the name commonly given to a group of separate intangible property rights. The most common types of IP include trade mark, patent, design and copyright. In Hong Kong, trade marks, patents, designs and copyrights are generally protected under the Trade Marks Ordinance (Cap. 559), the Trade Descriptions Ordinance (Cap. 362), the Patents Ordinance (Cap. 514), the Registered Designs Ordinance (Cap. 522) and the Copyright Ordinance (Cap. 528). In addition, under various international conventions, Hong Kong is required to recognise rights of persons from all member countries. Copyright is an automatic right and is not necessary to be registered. Unlike copyrights, the IP rights of trade marks, patents and designs are not automatic rights. As at 31 December 2019, the number of trade marks, patents and designs registered in Hong Kong totalled 536,592. The Commerce and Economic Development Bureau assumes policy responsibility for IP rights within Hong Kong. The Intellectual Property Department (IPD) is responsible for the registration and protection of IP. In 2018-19, IPD's income was \$220.7 million and its total expenditure was \$177.5 million. The Audit Commission (Audit) has recently conducted a review of IPD's work on the registration and protection of IP.

Registration of trade marks, patents and designs

2. *Backlog in processing trade mark applications.* Audit analysed the backlog in trade mark applications and noted that: (a) the number of outstanding applications increased by 29% from 5,270 in January 2018 to 6,775 in December 2019; (b) there was a significant increase of 67% in the number of outstanding applications from 6,494 in January 2019 to a peak of 10,860 in May 2019; and (c) the percentage of trade marks that were registered within six months from the date of receipt of application decreased from 73% in April 2018 to 7% in June 2019 and then picked up to 45% in December 2019 (paras. 2.4 and 2.5).

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3. ***Need to shorten the time taken to issue first letters to trade mark applicants.*** Audit analysed the progress of processing outstanding trade mark applications and noted that as at 31 December 2019, of the 6,775 applications: (a) 4,907 (72%) had not yet completed the deficiencies checking stage, including 765 (16% of 4,907) which had been received for over 90 days. The earliest application was received 1,156 days ago; and (b) 1,868 (28%) were undergoing the search and examination stage. Audit also noted that in the period from January 2018 to October 2019, IPD issued 67,049 first letters to trade mark applicants during the deficiencies checking stage requesting them to provide information to remedy the deficiencies or notifying them that their applications would proceed to the search and examination stage. For 17,177 (26%) of the 67,049 first letters, IPD took more than 60 days after receipt of the applications to issue the first letters, and the longest time taken was 433 days (paras. 2.8, 2.10 and 2.11).

4. ***Increasing number of outstanding applications for patent registration.*** Audit analysed the number of outstanding applications for standard patents and short-term patents for the period from January 2018 to December 2019 and noted that: (a) the number of outstanding standard patent applications increased by 70% from 6,367 to 10,798; (b) the number of outstanding short-term patent applications increased by 56% from 260 to 406; and (c) there was an increasing trend in the number of outstanding applications for standard patents since late 2018 and for short-term patents since early 2019 (paras. 2.15 and 2.16).

5. ***Long waiting time for hearings on trade mark registration matters.*** For inter partes substantive hearings on trade mark registration heard in December 2019, the average waiting time for hearings was 11 months. IPD considered that the average waiting time was quite long as compared to the performance of overseas IP agencies and the Judiciary of Hong Kong. Proceedings concerning trade marks should be determined expeditiously as any uncertainty concerning the use or protection of trade marks would have a material impact on the trade mark owners' business plans and strategies (paras. 2.22, 2.23 and 2.25).

6. ***Room for improving the proportion of electronic filing for trade mark registration.*** Audit examined the statistics of electronic filing for trade mark, patent and design applications in the period from 2015 to 2019 and noted that: (a) the percentage of electronic filing for trade mark applications was the lowest among the three types of applications persistently; (b) the percentage of electronic filing for trade mark applications received by IPD was lower than those of other major IP offices

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outside Hong Kong; and (c) IPD had introduced preferential fee reduction for electronic filing of patent applications but not for that of trade mark or design applications (paras. 2.27 and 2.31).

7. *Need to consider setting performance targets on some key steps in the application processes.* IPD has included in its Controlling Officer's Report 20 key performance measures in respect of its statutory functions, comprising 6 targets and 14 indicators. Audit noted that no targets or indicators were set in relation to: (a) the timeliness of issuing the first letters to applicants during the deficiencies checking stage for trade mark registration; and (b) the timeliness of processing applications during the examination on formal requirements stage for patent registration and design registration. These steps constituted a considerable proportion of the average processing time of the respective types of applications (paras. 2.34 to 2.36).

8. *Some costing statements not submitted to the Financial Services and the Treasury Bureau (FSTB) to support costing reviews.* It is stipulated in the Financial Circular No. 6/2016 entitled "Fees and Charges" that Controlling Officers should conduct costing reviews for fees once a year. For the annual costing reviews for 2015-16 to 2019-20 price levels, in some cases, IPD had not submitted costing statements to the Treasury for vetting and/or to FSTB, contrary to the Financial Circular requirements (paras. 2.39 and 2.40).

Promotion of intellectual property protection

9. *Need to step up efforts in promoting public awareness of IP protection.* In order to evaluate the change in awareness level on IP among the public, IPD has periodically conducted the Survey on Public Awareness of Intellectual Property Right Protection (PAIP survey) since 1999. Audit noted that for the PAIP survey completed in 2018, of the 1,003 respondents interviewed: (a) 74% were not aware that IPD was the Government department responsible for promoting the protection of IP rights in Hong Kong; (b) 49% were not aware of the promotional activities of IPD; and (c) 36% considered that the promotional activities of IPD were quite/very ineffective (paras. 3.3 and 3.5).

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10. ***Need to review the promotional expenditure spent on different channels.*** Audit analysed the expenditure incurred by IPD in 2018-19 on placing advertisements through different channels to promote IP protection and noted that: (a) while 19% of the expenditure was spent on advertisements at the airport and immigration control points, its effectiveness was not evaluated in the PAIP survey; and (b) while only a small percentage of the respondents perceived that advertisements on bus was the most effective advertising channel, 11% of the expenditure was spent on bus advertisements, higher than those spent on other channels which were perceived to be more effective according to the PAIP survey (para. 3.8).

11. ***Room for improvement for the No Fakes Pledge (NFP) Scheme.*** IPD launched the NFP Scheme in 1998. Participating merchants in the Scheme must volunteer to make a pledge not to sell fakes, and may post the No Fakes (NF) stickers and place tent cards in their shops. IPD is the coordinator of the Scheme, and there are four supporting organisations for the Scheme including the Customs and Excise Department (C&ED). Audit noted that: (a) the number of physical shops covered under the Scheme decreased by 274 (4%), from 6,785 in 2015 to 6,511 in 2019 and up to 31 December 2019, only 166 online shops were covered; (b) as at 11 February 2020, of the 1,225 retail merchants who were members in 2019, 318 (26%) had not renewed their membership; (c) of the 9 retail shops visited by Audit in January 2020 whose NFP Scheme membership had already been suspended or terminated, 2 (22%) were still displaying the NF logo on promotional materials in their shops; and (d) IPD had not taken prompt follow-up actions after raid operations were taken against three member shops by C&ED (paras. 3.13 to 3.16, 3.21, 3.26 and 3.28).

12. ***Room for improvement for the IP Manager Scheme.*** The IP Manager Scheme was launched in 2015 with an aim of assisting Hong Kong enterprises to build up their IP manpower capacity and to increase competitiveness so as to grasp the opportunities brought by IP trading. Audit noted that: (a) the number of new participating enterprises decreased by 38% from 242 in 2017-18 to 151 in 2018-19; and (b) in the period from 2015-16 to 2018-19, the attendance rate of training programmes under the Scheme had decreased from 97.7% to 86.3% (paras. 3.36, 3.37 and 3.40).

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Administrative issues

13. *Need to enhance competition in procurement of outsourced services.* In the period from 2001 to 2019, IPD awarded six outsourcing contracts through open tenders for some of its non-core services, with a total contract value amounting to \$335.4 million. Audit reviewed the tender exercises conducted by IPD in the period from 2001 to 2019 and noted that 9 bids were received for one contract for the tender exercise in 2001 while only 1 to 4 bids were received for the other five contracts for the tender exercises in 2006 to 2019. Audit noted that: (a) since 2014, the tenderer's experience had been the sole criteria for IPD's tender evaluation other than the tender price. In October 2018, it was announced in the 2018 Policy Address that the Government would introduce a pro-innovation government procurement policy in April 2019, raising the technical weighting in tender assessment with a view to promoting innovation. However, for the tender exercise conducted in March 2019, IPD used the evaluation approach adopted for the previous contract and included tenderer's experience as the only essential requirement; and (b) according to the Stores and Procurement Regulations, departments are encouraged to conduct a market research or non-binding expression of interest (EOI) exercise to better understand the goods or services likely to be available in the market. Although IPD received only two tender proposals in the 2006 tender exercise, it did not conduct any market research or EOI exercise for the subsequent tender exercises (paras. 4.2, 4.3, 4.5 to 4.7 and 4.10).

14. *Need to strengthen the monitoring of contractor's performance.* Audit noted that: (a) according to the contract for IPD's office operation service (with contract period from December 2014 to November 2019), Management Committee and business review meetings should be held at least once every three months. However, 11 (55%) of the 20 Management Committee meetings and 11 (65%) of the 17 business review meetings during the contract period were held longer than three months after the previous meeting; and (b) the guidelines on checking of contractor's performance report only showed how the deduction of monthly charges was computed, but detailed procedures on other checks were not included (para. 4.13).

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Audit recommendations

15. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Director of Intellectual Property should:**

Registration of trade marks, patents and designs

- (a) **take measures to expedite the processing of trade mark applications (para. 2.32(b) and (c));**
- (b) **closely monitor and take measures to reduce the backlog of outstanding patent applications (para. 2.32(d));**
- (c) **closely monitor the waiting time for hearings and take measures to shorten the time when the situation warrants (para. 2.32(f));**
- (d) **explore measures to further increase the rate of electronic filing for trade mark applications (para. 2.32(g));**
- (e) **review the coverage of IPD's existing targets on the timeliness of processing trade mark, patent and design applications and consider setting a target on the time taken to issue the first report during examination on formal requirements for patent and design applications (para. 2.37);**
- (f) **ensure that the prevailing government guidelines on fees and charges are complied with (para. 2.44(a));**

Promotion of IP protection

- (g) **step up efforts on promotion of public awareness of IP protection (para. 3.11(a) and (b));**
- (h) **boost the membership of the NFP Scheme (para. 3.33(a) to (c));**

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- (i) take measures to prevent misuse of the NF logo on promotional materials by shops which are not members of the NFP Scheme (para. 3.33(e));
- (j) take measures to ensure that prompt follow-up actions are taken against participating merchants of the NFP Scheme upon raid operations for IP rights infringement (para. 3.33(f));
- (k) step up efforts to boost the attractiveness of the IP Manager Scheme and the attendance rate of the training programme under the IP Manager Scheme (para. 3.43(a) and (b));

Administrative issues

- (l) in conducting tender exercises for the procurement of outsourced services, set evaluation criteria that dovetail with the new pro-innovation government procurement policy (para. 4.16(a));
- (m) conduct market research or non-binding EOI exercises for tender exercises with a view to ascertaining the market supply of the services required (para. 4.16(b)); and
- (n) take measures to strengthen the monitoring of the contractor's performance (para. 4.16(c)).

Response from the Government

16. The Director of Intellectual Property generally agrees with the audit recommendations.