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**COMMERCE AND ECONOMIC
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GOVERNMENT OF THE HONG KONG
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5 February 2015

Ms Annette Lam
Clerk to Panel
Panel on Commerce and Industry
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Ms Lam,

Legislative Council Panel on Commerce and Industry

Regarding your letter to the Secretary for Commerce and Economic Development on 27 January 2015, please find enclosed for Members' reference the Administration's response to the submission from the Law Society of Hong Kong and the letters from the Asian Patent Attorneys Association Hong Kong Group and the Hong Kong Institute of Trade Mark Practitioners. We will also provide the Chinese version shortly. Thank you.

Yours sincerely,

(Amor WONG)

for Secretary for Commerce and Economic Development

Administration's Response to the
Submission from the Law Society of Hong Kong and the
Letters from the Asian Patent Attorneys Association Hong Kong Group
and the Hong Kong Institute of Trade Mark Practitioners
on the Review of Fees and Charges of the Intellectual Property Department

In its submission ("Submission") (LC Paper No. CB(1)488/14-15(01)) dated 23 January 2015 to the Legislative Council ("LegCo") Panel on Commerce and Industry ("Panel"), the Law Society of Hong Kong ("Law Society") set out its views on the Administration's proposed revision of fees and charges following a review by the Intellectual Property Department ("IPD") as set out in LC Paper No. CB(1)344/14-15(03) ("the Panel Paper"). The Asian Patent Attorneys Association Hong Kong Group ("APAA HK Group") and the Hong Kong Institute of Trade Mark Practitioners ("HKITMP") also wrote to the Panel on 27 and 30 January 2015 respectively to support the views expressed in the Submission.

2. The subsidiary legislation implementing the proposed revision of fees and charges was gazetted on 30 January 2015 for tabling before the LegCo under cover of a LegCo Brief. The Administration's response to the points raised in the Submission has been summarised in paragraphs 21 to 23 of the LegCo Brief and set out in full below.

Rationale and approach used in the fee revision proposals

3. As mentioned in paragraph 4 of the Panel Paper, the existing fees of the four registries operated by IPD, namely the Copyright Licensing Bodies Registry, the Trade Marks Registry, the Designs Registry and the Patents Registry, have been maintained for more than 10 years. This has prompted the conduct of costing exercises to review the costs and the fees of services resulting in the Administration's fee revision proposals.

4. As explained in paragraph 7 of the Panel Paper, the Administration's fee revision proposals for trade marks, patents and designs have been formulated on the basis that there would **not** be cross-subsidisation across different registries, while within the same registry, there remains some degree of cross-subsidisation between the services, in order to achieve the policy objectives of ensuring that application fees are competitive and affordable so as to provide incentives to encourage the creation, use and protection of intellectual property ("IP") through registration; setting renewal fees above cost recovery level to encourage non-renewal of disused IP; and attaining global full cost recovery for each of the registries in question. As regards copyright licensing bodies, the application fee and renewal fee are set at levels to recover the full cost of providing the services.

Consultation with the Law Society, APAA HK Group, and HKITMP

5. We welcome the Law Society's confirmation in its Submission that it has no objection to the fee proposals with regard to the Copyright Licensing Bodies Registry, nor to the proposal to retain the current patent registration and renewal fees. At the same time, we note that the Law Society expressed strong objections to the proposed increase of trade mark application fees and the proposed reduction of trade mark and design renewal fees.

6. In line with its established practice of maintaining close consultation with IP stakeholders including IP practitioners, IPD consulted the Law Society, APAA HK Group and HKITMP on the fee revision proposals at a meeting held on 21 November 2014. While some mentioned the wish of maintaining the trade mark renewal fees at current levels (in exchange for a smaller increase of application fees), which view was subsequently reflected in paragraph 20 of the Panel Paper, IPD noted no strong objections to the fee revision proposals at the meeting or at any time thereafter prior to the receipt of the Submission on 26 January 2015. In this regard, we have to respectfully disagree with any suggestion that the Administration had failed to properly represent in the Panel Paper the views previously expressed to IPD.

Application fees for trade marks and renewal fees for trade marks and designs

7. That said, we appreciate the latest views and suggestions by the Law Society as set out in the Submission. We note a few main reasons for objection cited by the Law Society: “(i) *Higher application fees create a barrier to market entry*”; “(ii) *Lower renewal fees may encourage the abuse of monopoly rights*”; and “(vi) *Any revenue made by the IPD may be used to subsidize other operations*”.

8. In fact, we have no disagreement with the Law Society's points as a general principle¹. Indeed, the Administration has formulated the fee revision proposals to achieve the policy objectives of ensuring that application fees are competitive and affordable while keeping renewal fees above cost recovery level to encourage non-renewal of disused IP on the one hand, while achieving global cost recovery for each registry concerned. The main point of departure appears to be one of quantum of fee level adjustments and the need for fee reductions regarding renewals.

Designs Registry

9. In its Submission, the Law Society suggests retention rather than reduction of the existing renewal fees for registered designs. We wish to point out that this suggestion would result in significant overcharging of the users by 27%

¹ Note however that cross-subsidisation is possible only within the same registry and where it is justifiable by policy reasons. See further paragraph 9 below.

when compared with the costs of running the Designs Registry. This is contrary to the general government policy as well as the relevant legislative provision in Cap. 522² requiring fees to be fixed at levels to achieve full cost recovery of the Designs Registry. Savings in running costs should benefit the users themselves but cannot be used to cross-subsidise the operation of other registries or IPD's other activities.

Trade Marks Registry

10. In its Submission, the Law Society suggests retaining the trade mark renewal fees at current levels (i.e. without reduction) and a smaller increase of trade mark application fee by 28.5% instead of 54%, or by “such other similar amount to effectively cover the equivalent amount of the cancelled trade mark renewal fee reduction”.³

11. Under the Administration's proposals, while the increase in the trade mark application fees may seem significant in percentage terms, the increase is relatively modest in absolute monetary value (e.g. \$700 for application for trade mark registration in respect of the first class of goods/services and \$350 in respect of application for trade mark registration for each additional class of goods/services), particularly in view of the absence of fee adjustment for over 10 years. It is relevant to note that the application fees still remain substantially below cost recovery level after the proposed increase, and continue to be subsidised by income generated from trade mark renewals. Moreover, the revised application fees will remain competitive and generally in line with or lower than those charged by overseas trade mark registries with a similar regime (UK, Singapore, Australia).

12. Conversely, even after the relatively mild reduction as proposed, the renewal fees for trade marks will continue to be charged at a level significantly higher than the costs of providing the service (and generally higher than those charged in the UK and Singapore), and will remain our major source of income for subsidising trade mark applications (but not any activities outside the Trade Marks Registry⁴). Furthermore, there appears no evidence to suggest that the relatively

² Section 79(6) of Cap. 522 provides that any rules made under section 79(2)(c) of Cap. 522 may (a) prescribe fees fixed at; or (b) provide for fees to be fixed at, levels that provide for the recovery of expenditure incurred or likely to be incurred by the Government or other authority in the exercise of any or all functions under the Ordinance, and shall not be limited by reference to the amount of administrative or other costs incurred or likely to be incurred in the exercise of any particular function.

³ If trade mark renewal fees were to be kept at the current level as suggested by the Law Society, according to our preliminary estimate, the application fees would have to be adjusted upwards by around 36% in order to achieve global full cost recovery for the Trade Marks Registry, i.e. \$470 for the first class of goods/services of trade mark application and \$235 in respect of application for trade mark registration for each additional class of goods/services.

⁴ Section 91(6) of Cap. 559 provides that any rules made under section 91(2)(i) of Cap. 559 may (a) prescribe fees fixed at; or (b) provide for fees to be fixed at, levels that provide for the recovery of expenditure incurred or likely to be incurred by the Government or other authority in the exercise of any or all functions under the Ordinance, and shall not be limited by reference to the amount of administrative or other costs incurred or likely to be incurred in the exercise of any particular function.

mild reduction of renewal fees (\$330 in respect of the first class of goods/services and \$160 in respect of each additional class of goods/services as proposed) will lead to abuses by encouraging the renewal of disused rights⁵.

Other reasons for objection

13. The Administration also sets out its comments on the other points raised by the Law Society.

“(iii) Lower renewal fees fail to reflect the inherent value of intellectual property rights”

14. The Administration agrees that IP rights are valuable assets and places great importance in providing high quality registration services to ensure a robust IP protection regime in Hong Kong. But it is too remote to suggest that the proposed reduction in trade mark and design renewal fees may in any way misrepresent or undermine the inherent value of these IP rights by presenting them as “cheap” and “low value” assets. After the proposed reduction, the renewal of a trade mark will cost \$2,670 plus \$1,340 for each additional class⁶, and the successive renewals of a design will cost \$790, \$1,200, \$1,760 and \$2,690⁷. These remain significant ‘investments’ by the owners over time.

“(iv) No pressure from the local or international community to lower renewal fees”

15. As explained above, the fees of the four registries operated by IPD have been in force for over 10 years. The review of the costs and fees of the services provided was timely and principled. As we pointed out in the Panel Paper, the Financial Secretary had, in the 2013-14 Budget Speech, emphasised the need to review fees and charges systematically for upholding the “user pays” principle, with priority given to those fees that had not been revised for years and did not directly affect people’s livelihood. We should look at the fee revision proposal as a holistic package based on the results of a comprehensive costing and review exercise. From an international perspective, the renewal fees for trade marks after reduction will remain generally higher than those charged in the UK and Singapore.

⁵ Moreover, there are built-in safeguards in the Trade Marks Ordinance against the continuous registration of disused rights by providing for non-use, in particular, provision on non-use as a ground for revocation. In 2014, the number of registrations revoked wholly or partially on the ground of non-use was 40 while the total number of registered trade marks as at end 2014 was 342 696.

⁶ Instead of \$3,000 plus \$1,500 for each additional class at present.

⁷ Instead of \$1,230, \$1,860, \$2,740 and \$4,170 at present.

“(v) Lower renewal fees lead to increase in the IPD’s expenses”

16. We appreciate the Law Society’s concerns about IPD’s administrative burden should the register be clogged up with disused IPRs. We believe the comment was made in particular with the Trade Marks Registry in mind⁸, and against the continuous rise in the number of trade mark applications. However, as noted in paragraphs 12 and 14 above, there is no evidence to suggest that the proposed reduction in renewal fees will encourage unnecessary renewals, and indeed renewal fees would remain a significant investment by the owners.

Summing up

17. We maintain the present fee revision proposals for the Trade Marks Registry and the Designs Registry as a reasonable package balancing different considerations. IPD will continue to closely liaise with the Law Society, APAA HK Group, HKITMP and other stakeholders through existing platforms for exchange of views and communication. The Administration will also conduct regular reviews on the scale of fees charged in the various registries to ensure that they remain appropriate and up-to-date.

Commerce and Economic Development Bureau
Intellectual Property Department
February 2015

⁸ The trade mark registration system involves substantive examination, which requires the Registrar to consider whether there is any conflicting earlier trade mark on the register. On the other hand, designs are registered after formality examination only and does not require search against prior registered designs.